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The Economics of Late Development, Industrialization and Economic Integration: with Case Studies of Ethiopia

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Declaration:
Hereby I declare that this doctoral thesis, my original investigation and achievement, submitted for the doctoral degree at Tallinn University of Technology has not been submitted for doctoral or equivalent academic degree.

Zinabu Samaro Rekiso

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Hilise arengu, industrialiseerimise ja majandusliku integratsiooni ökonoomika Etioopia näite varal

ZINABU SAMARO REKISO

Contents

List of Publications

The list of author's publications, on the basis of which the thesis has been prepared:

I Paper 1: Zinabu Samaro Rekiso. (2018). Economics of Late Development and Industrialization: Putting Gebrehiwot Baykedagn (1886–1919) in Context. *Cambridge Journal of Economics, bey001*. Retrieved on 06 November 2018 from https:// doi.org/10.1093/cje/bey001.

II Paper 2: Zinabu Samaro Rekiso. (2017). Rethinking Regional Economic Integration in Africa as if Industrialization Mattered. *Structural Change and Economic Dynamics, 43*, 87–98.

III Paper 3: Fantu Cheru & Zinabu S. Rekiso. (2019). Ethiopia's 'Economic Diplomacy' and Regional Integration. Forthcoming as Chapter 8 in Fantu Cheru, Christopher Cramer, Arkebe Oqubay (Eds.), *Oxford Handbook on the Ethiopian Economy*. Oxford: OUP.

IV Paper 4: Zinabu Samaro Rekiso. (2019). Education and Economic Development in Ethiopia (1991–2017). Forthcoming as Chapter 25 in Fantu Cheru, Christopher Cramer, Arkebe Oqubay (Eds). *Oxford Handbook on the Ethiopian Economy*. Oxford: OUP.

V Annex I: Zinabu Samaro Rekiso. (2016). Trade Deficits as Development Deficits: A Case Study of Ethiopia's Persistent Trade Deficits. Under peer review at *Post Keynesian Journal of Economics*.

Author's Contribution to the Publications

Contribution to the papers in this thesis are:

I Paper 1: Author conducted the research required for the paper, did the write-up, made revisions proposed by his dissertation supervisor as well as journal editors and anonymous reviewers.

II Paper 2: Author conducted the qualitative and quantitative research needed for the paper, did the write-up, addressed the comments and suggestions of his dissertation supervisor and finalized the paper for publication.

III Paper 3: As co-author of the paper, author conducted the required literature review, proposed analytical methodology, collected and analyzed quantitative data and drafted sections that pertain to economic integration.

IV Paper 4: Author prepared proposal for the book chapter to the editors, conducted both the qualitative and quantitative research for the book chapter, presented the draft chapter at a review conference, addressed comments/feedback of reviewers and editors.

V Annex I: Author conducted the qualitative and quantitative research needed for the paper, did the write-up, addressed the comments and suggestions of his dissertation supervisor.

1 Introduction

1.1 Background and Context

This dissertation deals with various aspects of structural transformation, industrialization and economic integration from the perspective of late-developing economies, such as those in Sub-Saharan Africa (SSA) in general and Ethiopia in particular. Therefore, this section provides academic and policy contexts under which this dissertation has been conceived and developed. Besides providing background and context, the section aims to provide a brief but critical review of the relevant literature with the objective of identifying important gaps in the literature which the dissertation aims to fill.

The section below begins with a discussion of the elusive quest to achieve economic development in SSA, where both optimistic and pessimistic narratives have been recurring themes since the 1960s. This is followed by a brief discussion of how the region failed to achieve economic development through structural transformation towards higher productivity, higher technology, and higher-skill economic activities. That will be followed by a brief but critical look at how the mainstream literature and global policy discourse have, over the decades, responded to the late-development challenges in the region. The next sub-section discusses the external dimensions of economic development and policy space for economic development from the perspective of late-developing economies and how some of the associated issues are treated in the mainstream economics literature.

1.1.1 The elusive quest for economic development in Sub-Saharan Africa (SSA): Alternating between optimistic and pessimistic narratives

To date, observers of the international discourse about the development prospects of Sub-Saharan Africa (SSA) must be used to recurrent themes of excessive pessimism and optimism – both of which have been invariably associated with growth performances that are closely linked to international commodity price booms and slumps (see **II** for details). For instance, following decolonization, Africa as a whole achieved moderate economic growth from the mid-1960s until the end of the 1970s, which created optimism about the continent. In particular, there was a notable acceleration of growth in sub-Saharan Africa (SSA) during the 1970s, supported by a boom in commodity prices and foreign aid (UNCTAD, 2001, 3). However, economic performance deteriorated rapidly in the late 1970s and early 1980s; and stagnation and decline continued during the first half of the 1990s (ibid.). These two decades are considered to be "lost", since Gross Domestic Product (GDP) was on average declining for the African continent as a whole (UNECA, 2016, 16).

The generally dismal performance of SSA economies over the two "lost decades" inevitably created a widespread pessimism about the prospects of the economies; but this was later somewhat dispelled by an upturn which began in the mid-1990s (UNCTAD, 2001). In fact, over the period 2001–2008, Africa was among the fastest growing regions in the world economy (UNCTAD, 2012, 2); and between 2000 and 2014, annual GDP growth in Africa was 4.6 per cent on average (UNECA, 2016, 16). This also invariably generated substantial optimism about Africa's economic prospects; and the dominant narrative changed from "the dark continent" to "Africa Rising".[1] Unfortunately, the

[1] For instance, *The Economist* magazine, which had been known to be pessimistic about Africa's prospects (See for instance the article in the 11 May 2000 print edition of the magazine entitled,

optimism could not last because, "Economic growth in Africa fell by more than half from 3.7 per cent in 2015 to 1.7 per cent in 2016 amid weak global economic conditions, still-low (even if rising) oil and commodity prices and adverse weather conditions (drought)" (UNECA, 2017, 3). Furthermore, Africa's share in global merchandise exports – already very low – fell further, to 2.4 per cent in 2015 (ibid., 19).

Even during the period when growth performance was creating waves of optimism, detailed analyses of the pattern and sources of growth across the continent indicated that the picture was not that rosy, i.e. the pattern of growth was neither inclusive nor sustainable for several reasons (UNCTAD, 2011, 2–3). The first reason is the heavy dependence of African countries on natural resources – most of which are non-renewable and are being depleted at a very rapid rate with negative consequences for future growth and sustainability – as drivers of economic growth. The second worrying feature of the pattern of growth is that it has been accompanied by deindustrialization, as evidenced by the fact that the share of manufacturing in Africa's GDP fell from 15 per cent in 1990 to 10 per cent in 2008.[2] The growth hailed by the "Africa rising" narrative, and which has been underpinned by high global demand for commodities and their rising prices, has also been a jobless one: it has "not generated sufficient productive employment, improved living conditions or a significant decline in poverty and inequality" (UNECA, 2016, 2).

1.1.2 Africa and economic development through structural transformation

The brief discussion above hints at the importance attached to structural transformation from lower to higher productivity economic activities as a key element of economic development. Moreover, the heavy reliance of African economies on production and export of primary commodities has been recognized as the most important source of their vulnerabilities by policy makers of the continent since the 1960s. In fact, lack of economic diversification, industrialization and structural transformation have been major concerns to African policy makers and intellectuals over most of the post-colonial period (except during the era of the ascendance of neoliberalism and Washington Consensus to be discussed shortly). Consequently, according to UNCTAD (2011), after gaining political independence (mainly in the 1960s), most African countries started to promote industrialization based on the conviction that it was necessary to ensure self-reliance and reduce dependence on advanced countries. There was also "the expectation that industrialization would hasten the transformation of African countries

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"Hopeless Africa" (available at http://www.economist.com/node/333429), or another article entitled, "The Dark Continent" in the 16 August 2007 edition (available at http://www.economist.com/node/9660077), has concluded,

[O]ver the ten years to 2010, six of the world's ten fastest-growing economies were in sub-Saharan Africa … Over the past decade the simple unweighted average of countries' growth rates was virtually identical in Africa and Asia. Over the next five years Africa is likely to take the lead. In other words, the average African economy will outpace its Asian counterpart ("Africa's Impressive Growth", *The Economist Online*, 6 January 2011).

[2] The same source reports that the most significant decline was observed in Western Africa, where it fell from 13 per cent to 5 per cent over the same period. Nevertheless, there has also been substantial de-industrialization in the other sub-regions of Africa. For example, in Eastern Africa the share of manufacturing in national output fell from 13 per cent in 1990 to about 10 per cent in 2008; and in Central Africa, it fell from 11 to 6 per cent over the same period. Furthermore, in Northern Africa it fell from about 13 to 11 per cent and in Southern Africa it fell from 23 to 18 per cent (ibid., 2).

from agricultural to modern economies, create employment opportunities, raise incomes as well as living standards, and reduce vulnerability to terms of trade shocks resulting from dependence on primary commodity exports" (ibid., 2).

According to de Vries et al. (2013), as a result of the drive across the continent to industrialize, the expansion of manufacturing activities during the early post-independence period led to a growth-enhancing reallocation of resources, but this process of structural change was stalled in the mid-1970s and 1980s. In no small part, this was due to the onset of sweeping liberalization programmes forced upon African economies by the international financial institutions and their major donors. This followed the *Berg Report*[3], which justified the sweeping liberalization initiatives – arguing that Africa's comparative advantage lies in agriculture (Jomo, 2008, 9). The Report also assumed that African import-substituting industries had been protected for far too long, and would never become viable, let alone competitive; and therefore, it concluded that industrial policy and the existing (inefficient) industrial capacity had to be abandoned (ibid., 15). All in all, there was a widespread, sweeping and rapid opening up of trade, investment, finance and other flows in SSA; and very often, such liberalization was externally imposed by the Bretton Woods institutions as part of the conditions imposed to secure access to emergency credit during the debt crises of the 1980s, and more recently, in the wake of more currency and financial crises (ibid.). "African countries had been largely 'adjusted' by the late 1990s, with major changes in African economic policies and institutions. Africa has been 'liberalized' and opened to 'globalization'" (ibid., 6).

The result of liberalization was economic stagnation, premature de-industrialization "and agricultural decline, rather than structural change induced by differential productivity gains and changing demand due to increasing incomes to such an extent that, the rates of growth of manufacturing value added have fallen continuously from the 1970s, and actually contracted by an annual average rate of one per cent during 1990–97" (Jomo, 2008, 7–8). Even when growth rebounded in the 1990s, in most African economies, workers mainly relocated to market services' industries, where these activities had above-average productivity levels, but productivity growth was low and increasingly falling behind the world frontier – "a pattern of static gains but dynamic losses" (Vries et al., 2013). Essentially, African economies still reflect colonial economic structure: the share of manufacturing in total value added stood at 8% in 1970, 13% in 1990, 12% in 2000 and 10% in 2011 (Stein, 2000, 13; UNCTAD, 2014a, 4–5). Thus, failure of SSA economies in terms of industrialization and structural transformation is such that, "for most countries in the continent, it is low-productivity activities such as informal and non-tradable services that account for the bulk of the recent boom in the services sector and so it is not surprising that it has not had the expected impact on economic transformation" (UNCTAD, 2014a, 4–5).

The failure of African economies to achieve economic development through structural transformation towards higher productivity, higher technology, and higher-skill economic activities is acutely reflected in the composition of trade with the rest of the

[3] The Berg Report is the name most commonly used for the World Bank-published report, "Accelerated Development in Sub-Saharan Africa: A Plan for Action", written by Elliot Berg in 1981. The report was written in response to a 1979 request from the African Governors of the World Bank for a paper analyzing the development problems facing African countries. It also responded to a set of policies determined by African Chiefs of State in 1980, called the Lagos Plan of Action. While the Lagos Plan endorsed inward-looking policies of African self-reliance, the Berg Report advocated for outward-looking policies of increased international trade (Source: Wikipedia).

world, as well. According to UNECA (2017), Africa's exports to the world are poorly diversified and dominated by primary commodities, mainly hydrocarbons: 55 per cent of exports were fuels over 2010–2015, with manufactured goods accounting for only 18 per cent; whereas manufactured goods dominate Africa's imports (mainly heavy machinery, automobiles and chemicals) (ibid., 719).

1.1.3 Responses to challenges of late development in Africa, and the global development agenda

The economics of development that flourished during the post-World War II period and the decolonization process until the onset of the neoliberal era towards the end of the 1970s considered economic development almost synonymous with industrialization and structural transformation (Andreoni and Chang, 2016, 2). The group that promoted this view of economic development, which collectively form what is now called "classical development economics" or "pioneers of development", typically consists of the following key thinkers: Paul Rosenstein-Rodan, Hans Singer, Arthur Lewis, Albert Hirschman, Gunnar Myrdal and Ragnar Nurkse (Kattel et al., 2009).

However, this view of the process of economic development has a much longer history than the post-WW II period. The emphasis on industrialization and structural transformation as well as the consideration of capitalist economic development as a production-based system (as opposed to emphasis on exchange) has a very long history in the alternative tradition of economics which can be considered historical, evolutionary and institutionalist. From this view point, the core aspect of economic development is transforming productive structures based on superior technology, skill, knowledge and organizational capability embodied in institutions (Chang, 2011).

The alternative tradition includes such thinkers as Antonio Serra (1613), James Steuart (1767), Alexander Hamilton (1791), Friedrich List (1827, 1841/1909), Henry C. Carey (1888) and Gebrehiwot Baykedagn (1924).[4] Aspects of this tradition were developed by twentieth-century economists such as Young (1928), Schumpeter (1939), Myrdal (1957), Hirschman (1958) and Kaldor (1966), who also emphasized the fact that the dynamic heart of structural change – and thus economic development – is a process of cumulative causation, reinforcing and accelerating growth – basically because industrial expansion will create extra employment, incomes and demand, while raising productivity and profitability (through the Kaldor-Verdoorn law) and furthering investment (Storm, 2015, 675). Economic history also fully justifies the emphasis on industrialization and structural transformation since, throughout the history of capitalism, the manufacturing sector has been the engine of economic development. In addition, there has not been any significant economy that has developed without developing a strong manufacturing base – so much so that the term "industrialized country" and "developed country" are often used interchangeably (see also Chang et al., 2013, and Chang, 2014 on this point).

However, since the last quarter of the 20th century, industrialization and structural transformation as key developmental agenda were effectively abandoned (Shafaeddin, 2005). This can be partly attributed to complexities and developments in the political economy contexts of the countries themselves. However, in important ways, it was also

[4] Over the past few decades, Erik S. Reinert has been probably the strongest and most consistent advocate for the revival of interest in this tradition of economics since the publication of his PhD dissertation in 1980 (Reinert, 1980). Some of his outstanding works on this subject include Reinert (1995), Reinert (1999), and Reinert (2007). Another important popularizer of this intellectual tradition has been Ha-Joon Chang (See for e.g. Chang, 2002a, 2002b and 2007).

due to the intense pressures from international economic institutions and governments of the developed countries.[5] For instance, the 1980s, described by economists as Africa's "lost decade", was also the transition decade, which marked the beginning of the decline of developmentalism and the rise of neoliberalism; and it is no coincidence that the World Bank published its notorious but highly influential Berg Report (mentioned in the above sub-section) in 1981. It essentially presented an agenda for Africa "set by the erstwhile Bretton Woods institutions (BWIs) with the backing of Western countries, but it had little to do with development, accelerated or otherwise (Shivji, 2016, 243). The result of the subsequent Structural Adjustment Policies (SAP) in Africa were devastating: "Social indicators such as education, medical care, health, nutrition, rates of literacy and life expectancy all declined. Deindustrialization set in. Redundancies followed. In short, even some of the modest achievements of the nationalist or developmentalist period were lost or undermined (ibid., 244).

Subsequent to the disastrous SAPs, the dominant global development discourse came to ignore the importance of structural transformation and industrialization to an extent that, at the more formal level, "'development' came to mean poverty reduction, provision of basic needs, individual betterment, and sustenance of existing productive structures – that is, anything but 'development' in the traditional sense. In other words, it has turned into Hamlet without the Prince of Denmark!" (Chang, 2011, 48). Thus, in place of "development" being synonymous with industrialization and structural transformation, "Development and poverty reduction have become synonymous and the critical role of productive transformation has been neglected. This has also led to the neglect of full and productive employment as a critical dimension of development" (Andreoni and Chang, 2016, 4).

The change in emphasis took place, ignoring (intentionally or otherwise) the fact that economic underdevelopment and wide-spread poverty are the "default options" for economies that failed, for one reason or another, to progressively move towards higher productivity, higher knowledge and higher-skill economic activities. That is, the dominant development literature fails to understand that economic development is an "artificial" phenomenon. Consequently, in most of the mainstream academic and policy literature, it is argued that some countries and societies have a much better chance of economic development. However, there is no agreement as to what factors play a more important role. For instance, Bloom and Sachs (1998) suggest that 60 to 90 per cent of Africa's slow growth is attributable to geography and demography – tropical climate and a tropical disease burden, hostile and unfertile soil quality, a high youth dependency ratio, a semi-arid climate with rainfall subject to long cycles and unpredictable failure, etc.

[5] For instance, following decolonization in Africa, the internal political economy contexts and development management approaches followed by African governments were far from ideal and effective. According to Stein (2000), bureaucracies often expanded based on politics, not professionalism; states had a general antipathy for the private sector, or patrimonialism greatly affected the character of the private sector; both greatly weakened the group; state owned or partly owned industries relied on aid frequently tied to technology from developed countries with high import coefficients and little linkage to local capabilities (ibid., 19). However, the onset of sweeping liberalization programmes was forced upon African economies by the international financial institutions and their major donors following the Berg Report, which justified the sweeping liberalization initiatives, arguing that Africa's comparative advantage lies in agriculture (Jomo, 2008, 9).

Similarly, Diamond (1999) argues that both geography and the environment played major roles in determining the shape of the modern world (ibid., 405). Meanwhile, Acemoglu, Johnson and Robinson (2001, 2002) argue that the most important factor is the presence or absence of "appropriate" institutions because, according to them, after accounting for institutional differences, geographic variables have little influence on incomes today (ibid. 2002). Yet for others, it is about policies. For instance, Collier (1998) argues that it is quite difficult to achieve structural transformation in Africa because of long-lasting and hard to reverse effects of poor policies (e.g. trade barriers, transport costs, power costs, transaction costs, information costs, and high risk) make it quite infeasible (ibid., 280–281). Therefore, he suggests, "For the present Africa must live with dependence upon primary commodities, and for parts of Africa, this is the only likely future" (Collier, 2002, 28).

With respect to international development discourse and policy, particularly since the 1990s, the result has essentially been the replacement of development economics (radically changing the productive structures of poor countries) with palliative economics (easing the pains of economic misery) (Reinert, 2006, 2). This was clearly visible, for instance, in the Millennium Development Goals (MDGs)[6], which formed the most important global development framework, where none of the eight goals deal with anything related to changing the productive structure of the developing nations. Moreover, the anti-poverty and MDG approaches failed to understand the causal mechanism going from unemployment to poverty. For instance, the nature of those development policies that expand education in the absence of expansion and transformation of the productive sectors is self-defeating, for one, because such attempts lead to educated people to take up jobs for which they are over-qualified, and to "brain drain" from the economically less-developed regions and countries to more developed ones (Amsden, 2012).[7]

The tendency to disregard the significance of the productive structure of an economy when dealing with issues of human development such as education has been widespread in mainstream economics and development policy making for the past several decades. In fact, there is a long-standing consensus on the importance of education for economic development among scholars and within development policy circles. For example, according to human capital theory, there is a strong link between investment in education and higher productivity and wages for individuals at the micro level and a country's economic growth at the macro level.[8] Consequently, there has been a strong

[6] MDGs were eight international development goals for the year 2015 that had been established following the Millennium Summit of the United Nations in 2000, and the adoption of the United Nations Millennium Declaration. The eight goals were: (1) To eradicate extreme poverty and hunger; (2) To achieve universal primary education; (3) To promote gender equality and empower women; (4) To reduce child mortality; (5) To improve maternal health; (6) To combat HIV/AIDS, malaria, and other diseases; (7) To ensure environmental sustainability; (8) To develop a global partnership for development.

[7] This is part of what Myrdal (1944) calls "perverse backwashes" and "backwash effects" of economic development – more capital (both monetary and human) will flow from the poor to the rich countries or regions (Myrdal, 1944; 1957). Thus, in effect skilled labour and capital from an economy tends to migrate from an economy that has static comparative advantage in low-skilled, labour-intensive products and services to economies which have comparative advantage in high-skill, technology-intensive products and services.

[8] In standard economics literature, the emphasis on the role of education and human development in economic growth started with Theodore Schultz's inaugural speech at the 1960

emphasis on the importance of investment in human capital, particularly education (Krasniqi and Topxhiu, 2016). However, no consideration is made with regard to changing the productive structure of the economy.

The theoretical foundation of the consensus that emphasizes investments in human development in less-developed economies with disregard for the productive structure of the economies is the mainstream economic framework which, in our view, is inappropriate for late-developing economy contexts. As shown in **IV**, one reason why this framework is inappropriate is due to the fact that it is based on the domain assumption of full employment of all resources (including labour), which clearly does not reflect the context of developing countries like those in SSA. Secondly, it assumes a perfectly competitive product and labour markets (see e.g. Becker, 1994, 304, Becker, 1964) – an assumption that is clearly at variance with the reality in countries which are the focus of interest in this dissertation. Thirdly, the standard growth theories and human development theories consider economic development as a process largely driven by the accumulation of investments in physical and human capital (Nelson, 2016). This is what Schumpeter called, "the pedestrian view that it is capital per se that propels the capitalist engine" when in fact capital per se is sterile (Reinert, 2006, 7).

The past few years have witnessed some sort of revival of interest in industrialization and structural transformation in academia and policy circles. For instance, the Sustainable Development Goals (SDGs) of the United Nations (UN) replaced the MDGs in 2016 as the guiding international development framework. While the MDGs were largely focused on social development, discussion and debates around the SDGs raised expectations that they should promote economic transformation (Basnett and Bhattacharya, 2015, 2). A case in point is the Common African Position on the Post-2015 Agenda which states, "… therefore, we affirm our collective interests, which include the pursuit of structural economic transformation for inclusive and people-centred development" (ibid.).

The SDGs go beyond the poverty reduction agenda of the MDGs. Specifically, Goals 8 and 9 have reintroduced employment creation and inclusive and sustainable industrialization, while Goal 10 concerns the closely related issue of inequality reduction. However, the SDGs framework still under-values the central role of production transformation and good employment generation in sustainable development (Andreoni and Chang, 2016, 11). For example, the idea of sustainability enshrined in SDGs does not fully recognize the fact that economic sustainability ultimately depends on production transformation; and "Goal 9 (the only Goal explicitly mentioning industrialization) is a pretty marginal node in the SDGs network of goals" (ibid.). To put the issue of economic sustainability somewhat differently, structural transformation of economies such as those in SSA is not only important because it is more likely to help ensure that the SDGs will be achieved, "but also because it will enable the progress made to be sustainable beyond the target date of 2030. Without a solid economic foundation, progress in human development risks ultimately being reversed: without viable livelihoods, poverty will rise

Annual Meeting of the American Economic Association (Schultz, 1961). Schultz (1961) pointed out that human capital comprises skills, knowledge, and abilities and argues that maximizing it enables individuals to maximize earnings, companies to maximize profits, and nations to maximize wealth. He also argued that differences in investment in human capital formation are a major explanation for the differences in national outputs of various countries. Therefore, he recommended that assistance to "underdeveloped" countries should redirect attention from the formation of nonhuman to human capital to achieve economic growth (Schultz, 1961, 15–16).

again, worsening nutrition and health, and without a firm domestic source of public finances, health services and education will deteriorate once external support begins to wane (UNCTAD, 2014b, 52).

Overall, in recent years, there has been a welcome and significant revival in interest in industrialization and structural transformation in academia and policy circles, particularly in Africa. For instance, the 2014 edition of UNECA's (and African Union's) Economic Report on Africa laments that Africa's recent impressive economic performance has not been accompanied by structural transformation but by de-industrialization (UNECA & AU Commission, 2014, X-XII). The recognition of a lack of structural transformation in SSA economies seems to be one of the key reasons for the revival of advocacy for industrial policies in the past few years (See e.g. UNECA, 2016; Stiglitz et al., 2013; Rodrik, 2015 and McMillan et al., 2014). However, the revival of interest has, unfortunately, been too faithful to the neoclassical theoretical framework, where the benign role of the market mechanism and dangers of "government failure" are overly emphasized and given primacy, and sticking to static comparative advantage is recommended (Storm, 2015, 670).

For instance, UNECA, which has recently been on the forefront in Africa for advocating for structural transformation, argues, "Massive industrialization based on commodities in Africa is imperative, possible, and beneficial" (UNECA, 2013; *italics added*), implying that its advocacy for structural transformation is founded on the comparative advantage-based neoclassical theoretical framework.[9] This is in spite of the overwhelming evidence that no country in history has ever industrialized by sticking to its static comparative advantage but through deliberate direction of the 'market mechanism' to create dynamic comparative advantage (see Chang, 2002b and Reinert, 2007 for details on this).

1.1.4 External environment and policy space for late economic development

As discussed above, structural transformation of late-developing economies had been ignored for at least three decades both in the mainstream academic literature and the international development discourse. Moreover, even when the issue came back in the past few years into both the academic literature and policy discourse, it has been framed within the tenets of mainstream or neoclassical economics and mostly sticks to the doctrine of comparative advantage, which runs against historical evidence of successful late development and industrialization (discussed in detail in **I**, **II** and **Annex I**). In addition, the "development" debate has also tended to focus solely on internal factors that determine success/failure in development, "assuming that external market forces are always benign, with strongly positive influences on economic performance and prospects" (Sundrama et al., 2011, 2). Furthermore, the dominant development discourse of the past few decades draws "attention away from the treacherous features of the international system whose structure serves mainly the economic and political interests of powerful factions in donor countries" (Montes, 2016).

[9] Perhaps due to the fact that Ha-Joon Chang, one of the most ardent advocates of industrial policy since the mid-1990s, was the lead author of the 2016 edition of UNECA's Economic Report on Africa (UNECA, 2016), there seems to be a clear shift away from the neoclassical paradigm of industrial policy towards "transformative" industrialization. However, it is uncertain as to how the institution's approach to industrial policy and structural transformation would continue after the departure of Carlos Lopes, who had been a strong advocate of structural transformation, from UNECA. (Carlos Lopez was Executive Secretary of the UNECA from September 2012 to October 2016).

To begin with the case of international trade, developing countries extensively liberalized their trade regimes in the1980s (as part of the liberalization drive discussed above) with the premise that they could achieve rapid economic growth and diversification.[10] However, more trade liberalization has been associated with a more concentrated structure of exports (Montes, 2016, Figure 6.1). Even the much-touted SDGs ignore or misunderstand the nature and impact of free trade on the prospects of structural transformation in late-developing economies. In fact, the SDG agenda assumes that all forms of trade of less developed economies with advanced economies is good for the former. For instance, SDG 2b calls for the removal of subsidies, restrictions and distortions placed on developing country agricultural exports by advanced economies with the underlying assumption that the expansion of market access for agricultural products is an unqualified blessing for the developing economies.[11]

The second point in connection with this is the mainstream view about regional economic integration (REI). More specifically, there has been no significant academic literature – particularly with respect to Africa – that deals with the issue of REI vis-a-vis structural transformation. More specifically, there is no significant literature that closely looks at the relationship between REI and the level of industrialization (or lack of it) in the integrating economies, i.e. how the proportion of industrial outputs in the composition of a country's exports is linked with the level of its trade with another economy with which it is engaged in some form of REI. Moreover, the standard literature on REI is inappropriate to deal with this issue particularly in developing country contexts such as those in Africa for various reasons (see **II** for details on this).

The third point in this regard is related to financing of development. In the long tradition of alternative development economics, it is clearly understood that economic development and structural transformation are largely to be financed by domestic resources (see for example Gebrehiwot Baykedagn, 1924; Nurkse, 1953, 1961). This fact has amply been demonstrated by historical evidence. However, both the SDGs and MDGs emphasize external financing of development in late developing economies. For instance, the MDG approach put so much emphasis on foreign financing (of domestic social and redistribution policies rather than domestic financing by the developing countries themselves) that Reinert (2006) rightly raised the question of the extent to which this approach will put a large number of nations permanently "on the dole", a

[10] There has been an interesting development with regard to advocacy for free trade and liberalization since Donald Trump assumed the US presidency in January 2017. President Trump has emphasized three recurring themes regarding trade policy: the importance of trade balances, including bilateral trade balances, currency manipulation to gain unfair advantage in trade, and "disastrous" trade agreements. His challenge against free trade and liberal global economic order is interesting because usually such challenges come from nations with less developed economies and from leftist or populist leaders, and for nearly forty years, the United States had been the driving force in most free trade treaties (Sapir, 2017). However, it is not clear yet if this is a paradigm shift or a transitory development. Also, it is difficult to outline clear mid- and long-term implications of this development on the dominant international development policy discourse, and the approach and course of the influential international economic institutions (such as the WTO and the Bretton Woods institutions) towards developing economies with respect to trade and related matters.

[11] Note that this presumption is based on the doctrine of static comparative advantage to be dealt with in detail in this dissertation.

system similar to "welfare colonialism". Though SDGs give less prominence to foreign financing of late development compared to MDGs, the emphasis is still clearly visible.[12]

Fourth, the dominant development literature and international policy discourse of the past few decades ignore and/or fail to give attention to the importance of policy space for transformative industrial policies and strategies even when it deals with structural transformation and industrialization. This is in spite of the historical fact that late development and industrialization has never occurred automatically; but instead, it has always been the result of deliberate strategies and policies aimed at artificially changing the technology, knowledge and skill structure and capabilities of an economy (instead of relying on "natural" comparative advantage and "market forces"). For instance, in the Millennium Declaration of 2000, which formed the foundation for MDGs, UN member countries declared: "We are committed to an open, equitable, rule-based, predictable and non-discriminatory multilateral trading and financial system" (UN, 2000, para. 13). Later on, Target 8A under MDG 8 required further development of an "open, rule-based, predictable, non-discriminatory trading and financial system". Overall, the rules, frameworks and institutional arrangements (such as those of WTO and bilateral trade agreements) tend to limit the space for transformative industrial policies in late-developing economies, thereby making it more difficult for catch-up industrialization. In short, the laissez-faire approach advocated for late-developing economies of today is against the historical evidence related to all the successful cases of catch-up development and industrialization (see Chang, 2002b, Reinert, 1999, 2007 for details on this).

Finally, the mainstream development literature and policy discourse more or less completely ignores the possibility of long-term, structurally-rooted trade deficits in underdeveloped economies and the economic challenges associated with this.[13] This is in spite of the fact that persistent trade deficits are key features of such economies. And ironically, the associated challenges (of unbalanced trade) when a nation trades with more advanced economies used to be taken very seriously by writers of alternative economics tradition, at least since the days of mercantilists.[14]

1.2 Main purpose, focus areas and objectives of the dissertation

1.2.1 Main purpose

The dissertation attempts to address the various aspects of late development and structural transformation by addressing the weaknesses and gaps identified above in the intellectual literature and international development discourse. It critically examines the theoretical underpinnings of the dominant literature, identifies gaps and outlines alterative theoretical frameworks, which are then employed to undertake case studies related to Africa in general and Ethiopia in particular. The alternative tradition of economics that is employed throughout the dissertation can be described as historical,

[12] See for example Sub-Goal 1.a in the official revised list of SDGs, which says, "Ensure significant mobilization of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programmes and policies to end poverty in all its dimensions." Sub-goal 10.b also reads, "Encourage official development assistance and financial flows, including foreign direct investment, to States where the need is greatest, in particular least developed countries, African countries, small island developing States and landlocked developing countries, in accordance with their national plans and programmes."

[13] See Annex I for details on this.

[14] See Hudson (2009) for details on this.

evolutionary and institutionalist, and its kernels could be traced back at least to the work of the Antonio Serra (1613). The focus areas of the dissertation are described in more detail below.

1.2.2 Focus Areas

The dissertation's first focus (in **I**) is the presentation of the historical, evolutionary and institutionalist alternative tradition of economics through the review of the work of Gebrehiwot Baykedagn (GHB) (1886–1919), possibly the first African intellectual to advocate for a coherent and comprehensive programme of industrialization, particularly in GHB (1924). It also considers their current relevance with the view to draw attention back to two key issues related to late development: industrialization and the type of external economic relations with advanced economies that facilitate industrialization in a late developing economy. Moreover, by way of analyzing and tracing the intellectual lineages and roots of the work of GHB, the dissertation aims to examine the nature and impacts of economic integration of late-developing nations with more advanced ones.

The second focus area of the dissertation are the interrelationships between structural transformation and REI. More specifically, the dissertation (in **II**) looks at the linkages between industrialization and structural transformation on the one hand, and REI on the other hand by outlining taxonomic principles of transformative REI based on the insights from the historical, evolutionary and pragmatic alternative tradition of economic thought. The taxonomic principles are then employed to evaluate different types of economic integration arrangements vs. their implications to structural transformation and industrialization in a less developed economy (or economies). An attempt is made to apply this framework to REI arrangements in Africa. The third focus area of the dissertation is the application of the taxonomic principles of transformative REI (outlined in **II**) for the analysis of Ethiopia's economic diplomacy and REI efforts vs. its immediate neighbours. In other words, an attempt is made (in **III**) to assess the effectiveness of the efforts and initiatives of the country (particularly since 2002) vis-à-vis the economic structure of the country as well as its immediate neighbours.

The fourth focus area is the issue of persistent trade deficits, which have been ignored for decades by both academic and policy literature. An attempt is made (in **Annex I**) to link persistent trade deficits with the productive structure of a late-developing economy and understand why the predictions of conventional trade theories are at clear variance with the empirical evidence with respect to the impact of trade liberalization in a least-developed country context. A detailed case study of Ethiopia is employed with the aims of demonstrating the linkages between persistent trade deficits and economic structure, and of demonstrating that trade liberalization and asymmetric economic integration of underdeveloped economies with advanced ones lead to a persistently widening trade deficit.

The fifth and last area of focus of the dissertation is to put into question the strong and unqualified belief in the academic and policy literature of the past few decades on the importance of investment in human capital – particularly education – in developing economies without regard for the productive structure of the economy. Thus, an attempt is made (in **IV**) to critically examine the achievements and challenges of the education sector in Ethiopia from the perspective of long-term economic development and structural transformation. Attempts are made to identify linkages between the disproportionate focus on investment in education (without paying sufficient attention to changing the productive structure of the economy) with a vicious cycle of low-quality

education, persistently high levels of unemployment, underemployment and brain-drain of the better-educated human resources of the country.

1.2.3 Research questions

Within the focus areas described above, the following are the specific research questions addressed in the dissertation to address the gaps in the relevant literature:

a) Are the key ideas, arguments and policy proposals of the historical, evolutionary and institutionalist alternative tradition of economics valid and relevant for economic development in the context of today's late-developing economies?

b) What are some of the linkages between industrialization and structural transformation on the one hand, and REI on the other hand? What principles and conceptual frameworks are appropriate for the purpose of evaluating whether or not a given REI arrangement is transformative (i.e. facilitates long-term development and industrialization of a late developing economy)?

c) Given the economic structure of Ethiopia and that of its immediate neighbours, how effective have Ethiopia's economic diplomacy and REI efforts been vs. its immediate neighbours?

d) What are some of the links between persistent trade deficits and the productive structure of a late-developing economy? Why are the predictions of conventional trade theories at clear variance with the empirical evidence with respect to the impact of trade liberalization in least-developed country contexts?

e) What are some of the major achievements and challenges of the education sector in Ethiopia from the perspective of long-term economic development and structural transformation?

1.2.4 Specific Objectives

By addressing the above research questions, the dissertation aims to achieve the following specific objectives:

i. To analyze the key ideas of Gebrehiwot Baykedagn (1886–1919), one of the first African intellectuals to advocate for a coherent and comprehensive programme of industrialization, and to analyze the nature and impacts of economic integration of late developing nations with more advanced ones (**I**).

ii. (a) To critically examine the standard theories and approaches employed to analyze the issues of regional economic integration (REI); identify their major weakness vis-à-vis structural transformation (for use in African contexts in particular); (b) to outline an alternative analytical framework and taxonomic principles; and to analyze the linkages between the failure of SSA economies to industrialize and the failure of REI initiatives on the continent using the outlined alternative theoretical framework (**II**).

iii. To employ the theoretical precepts and analytical framework developed in **I** and **II** to analyze the trends, performance and current state of Ethiopia's economic integration with the countries of the Intergovernmental Agency on Development (IGAD)[15] sub-region (**III**).

iv. To provide both theoretical and empirical analyses of the linkages between the productive structure of an economy and persistent trade deficits (**Annex I**).

v. To critically examine the achievements and challenges of the education sector in Ethiopia from the perspective of long-term economic development and structural

[15] IGAD encompasses a North-Eastern African sub-region that stretches over an area of 5.2 million km^2; and the members of the organization are Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan and Uganda.

transformation. More specifically, **IV** aims to critically examine two systemic challenges that face the education sector in the country – education quality and its external efficiency – between 1991 and 2017.

1.3 Methodology and approaches

1.3.1 Case studies of Ethiopia

Three out of the five papers included in this dissertation present case studies on Ethiopia. Therefore, a brief note on the country and why Ethiopia is an interesting case for the topics addressed in the dissertation is due here. Located in North East Africa, Ethiopia is a country with a surface area of 1.1 million km^2. With a population estimated to be 102 million (2016)[16], it is the second most populous country in Africa. Its population and geographical size makes it the largest landlocked country in the world (since it lost its direct access to the sea with the independence of Eritrea in 1993). According to World Bank Data, it is the fastest growing economy in the region – growth averaging 10.3% a year from 2005/06 to 2015/16, compared to a regional average of 5.4%; however, it is also one of the poorest, with a per-capita income of $783.[17]

As discussed in **Annex I**, Ethiopia underwent extensive liberalization in the 1990s under pressure from donors and international financial institutions. Therefore, the country is an interesting case for looking at issues related to trade deficits in a poor economy under a liberal trade regime. As described in **IV**, the Ethiopian economy is not only poor but also undiversified and technologically backward, where low-productivity, low-technology, low-skill and low value-added agriculture provides employment for more than 80 per cent of the population. Beside the productive structure of its economy, the fact that Ethiopia is a landlocked country surrounded by other largely underdeveloped economies makes it an interesting case to study regional integration efforts among economies that are structurally underdeveloped (**III**).

Meanwhile, due to domestic reasons and the pressure and incentives from international donors and lenders, the country has been investing heavily in social sectors, such as education (with the budget for education averaging 27 per cent of the total), without an equivalent focus on transforming the productive structure of the economy. This makes it an interesting case for studying achievements and challenges of public investment in social sectors from the perspective of structural transformation (**IV**). In brief, we believe that Ethiopia offers an ideal opportunity to address the theoretical and policy issues as well as the research gaps that are described in the previous sections. In particular, it is found to be well-suited to explore the theoretical insights and conclusions that are derived in the dissertation (in **I** and **II**) with respect to late development, industrialization, structural transformation and economic integration. In addition, as discussed in the respective papers containing the case studies, as far as we know, the issues and topics that are the subject of the case studies have not been studied previously by other researchers (vis. Ethiopia), particularly from the perspective of late development and industrialization.

[16] Source: (https://www.worldbank.org/en/country/ethiopia/overview Accessed on 31 July 2018).
[17] Ibid.

1.3.2 Overview of research methodologies employed

Given the diverse nature of the topics covered in this dissertation, the methodological approach that has been used is diverse and eclectic. However, as has been stated in previous sections, there is an underlying theme that runs through all of these papers: structural transformation and industrialization of late-developing economies. The contextual meaning of structural transformation and economic development employed throughout the dissertation is developed over the course of writing the various parts and considers economic development essentially as a long-term process of changing the productive structure of an economy away from specialization in "nature-intensive", low-skill, low-knowledge, and low-technology economic activities towards "knowledge-intensive", higher-skill and higher-knowledge and technology-intensive economic activities.

In a broader sense, in line with the alternative tradition of economics – which can be broadly called evolutionary, historical and pragmatic – the dissertation considers capitalism as a system of production (rather than exchange), and the main elements of capitalist dynamics and drivers of development are not capital, (undifferentiated) labour or markets but new knowledge, entrepreneurship, innovations and organizational ability (Reinert & Kattel, 2004, 2–3). In contrast to the mainstream approach, here the main development policy goal is not static efficiency of resource allocation but increasing the productive capability of an economy. In modern terminology, the core aspect of development is transforming productive structures based on superior technology, skill, knowledge and organizational capability embodied in institutions (Chang, 2011).

Speaking of the contrast of the approach used in the dissertation to that of mainstream economics, in all the papers included in this dissertation, attempts are made to critically examine, review and identify the weaknesses and flaws of the standard theories of economics and then propose more realistic alternative approaches – particularly in the sense of reflecting the actual realities in late developing economies such as those in SSA.[18] For instance, in **Annex I**, which deals with persistent trade deficits observed in Ethiopia vis-à-vis the underlying productive structure of the economy, a brief but in-depth review of the standard theories of international trade finds that all the theories and models have a serious flaw which makes them inappropriate for developing country contexts: they assume full employment (of all resources) to arrive at automatically balancing trade, which is then used to advocate for free trade and specialization based on comparative advantage; whereas in reality, unemployment and underemployment are some of the most important problems facing most economies in Africa.

When we consider methodological approaches of individual focus areas, **I** is essentially a literature review-based article which required among others things purposive but comprehensive review of not only the work of Gebrehiwot Baykedagn but also literature about him and his works; and literature that contains ideas, approaches and theoretical frameworks that are similar to his as well as that are opposed to his work. A major challenge during the process was the fact that his major work (GHB, 1924) does not contain references and a bibliography (except mentioning names of two authors). This could likely be due to the fact that the author passed away when his major book was at rough-draft stage. In any case, after providing biographical highlights and context

[18] The exception to this approach is **III**, where space limits forced us not to allot a separate theoretical section.

(historical, social and economic contexts) to his writings, the article presents the summary of his ideas together with comparative analysis of his ideas with the works of mainstream as well as alternative traditions of economics of late development. The main topics addressed in this manner include: governance, institutions and political economy conducive for economic development; nature, causes and mechanics of late development and industrialization; causes of "unequal exchange" and the impact of asymmetric economic integration; and strategies for late development and industrialization. Finally, we attempt to critically assess the theoretical validity and current practical feasibility of his core ideas and recommendations for late development.

In the second focus area of the dissertation (**II**), we employ a mixed method, including critical and thematic literature review, use of secondary quantitative data and a case-study approach. The critical analysis of the foundations of the mainstream economics literature related to REI is conducted, and attempts are made to show why it is inappropriate for the purpose of evaluating whether or not a given REI arrangement is transformative (i.e. facilitates long-term development and industrialization of a late-developing economy). Then, the findings of this review are used to inform the presentation of an alternative theoretical framework that addresses the major weaknesses of the mainstream thinking on the matter and one that better fits the SSA context.

Thus, in the dissertation, unlike in standard literature, REI initiatives in Africa are not evaluated against the benchmark of free trade as the "first best". On the contrary, specialization based on comparative advantage is considered "developmental deadlock" rather than something to be aspired to. Instead, regional economic integration initiatives are assessed from the perspective of whether or not they would facilitate or retard structural transformation and industrialization in the integrating economies, i.e. whether or not they would facilitate a move away from specialization based on "natural" and static comparative advantage and towards "artificial" and dynamic comparative advantage in the economies involved. It is from this perspective and using taxonomic principles identified from this perspective that the dissertation looks into key challenges for transformative regional economic integration in Africa and presents two brief case studies: (1) Economic Partnership Agreements between European Union and groups of African countries; and (2) outward-oriented (and poor) physical infrastructure, industrialization and REI in Africa.

As indicated above, the dissertation employs the theoretical precepts and analytical framework developed in **I** and **II** to analyze the trends, performance and current state of Ethiopia's economic integration with the countries of the Intergovernmental Agency on Development (IGAD) sub-region in Africa (**III**). The methodology used in connection with this area of focus is also a mixture of document analysis, literature review and secondary data collection and analysis. In addition to using political economy analysis, the dissertation uses trade, investment, transport infrastructure and energy as vectors of economic integration to analyze the status, trends, driving factors and possibilities for economic integration in the sub-region from the perspective of Ethiopia and its economy-oriented foreign policy. The quantitative analysis is done using descriptive statistics only, and the results are presented in charts, figures, percentages, etc.

As indicated above, the fourth area of focus of the dissertation (**IV**) pertains to the examination of the major achievements and challenges of the education sector in Ethiopia between 1991 and 2017 from the perspective of long-term economic development and structural transformation. The theoretical component of this part of

the dissertation critically examines the weaknesses and blind spots of the standard approach (and the consensus) towards the role of education in economic development, and goes on to theorize what can happen if a late-developing economy invests heavily in social sectors such as education without a simultaneous and synergistic focus and investment towards structural transformation away from specialization in "nature-intensive", low-skill, low-knowledge, and low-technology economic activities towards "knowledge-intensive", higher-skill, and technology-intensive economic activities. The empirical component uses both qualitative information and (secondary) quantitative data and employs descriptive statistics to critically examine two systemic challenges that have faced the education sector in Ethiopia since 1991: education quality and its external efficiency. Also, policies, strategies, programmes and the performance of the education sectors of Ethiopia over the past quarter century are reviewed. An analysis of the systemic and persistent cycle of low-quality education in Ethiopia is presented; and an attempt is made to establish linkages between the productive structure of the economy, quality of education, and its external efficiency and effectiveness.

The last area of focus deals with the relationship between the productive structure of a late-developing economy, trade liberalization and import growth, and balance of trade (**Annex I**). The theoretical section of this area of focus takes issue with the conventional international trade theory which underlies ignorance of trade deficits in the literature and the assumption that terms of trade automatically move to eliminate trade imbalances. Then an attempt is made to develop an alternative theoretical framework which could explain persistent trade deficits in less developed economies with respect to their trade with more advanced economies and could highlight structural causes of chronic trade deficits and the associated vicious cycles. An in-depth case study of Ethiopia's persistent and chronic trade deficits is then presented. This includes a historical analysis of external trade policy regimes and historical data on variables such as imports, exports, trade balance, and composition of exports and imports of the country. Here again, no sophisticated statistical and econometric methodologies were employed beyond descriptive statistics for various reasons, not the least of which is the fact that the implied theoretical/mathematical model (developed in the theoretical part) is too complicated for standard econometric analyses. Moreover, we felt that the empirical arguments made in the dissertation are straight forward and do not call for sophisticated statistical causality analyses.

1.4 Significance of the research

The overarching aim of this dissertation is to try to bring back academic attention to various aspects of structural transformation and industrialization in the context of late-developing economies with a particular geographical focus on SSA in general and Ethiopia in particular. As such, the dissertation research contributes toward narrowing clear and important gaps in the academic literature of the past few decades that were highlighted in the introductory section. To be more specific, for instance, the research reported in **I** attempts to shed light on the key ideas of a long-ignored alternative tradition of reality-based, evolutionary economics through review of the work of GHB, who has been virtually unknown outside his home country and misunderstood in his home country, Ethiopia. Thus, **I** is possibly the first attempt at properly assessing the intellectual lineages of GHB's ideas, their validity and how they relate to the current development thinking. Furthermore, no systematic analysis of his policy proposals and

whether or not they are relevant to his home country or the wider African context had been done previously. Therefore, the dissertation attempts to fill this gap in analyzing his ideas, putting them in their proper intellectual context and assess their relevance today. To the best of our knowledge, it is the first published work to do so.

The exploration in this dissertation of some of the linkages between industrialization and structural transformation on the one hand, and REI on the other hand has some significance as it demonstrates the fact that it is possible to address the issue of regional economic integration (REI) using more realistic taxonomic principles (compared to the standard theoretical approaches which are patently unrealistic in the context of late-developing economies). The taxonomic principles proposed in the dissertation (**II**) for the evaluation of REI arrangement with respect to their impact on long-term economic development have been around in more or less sophisticated form at least since the publication of Charles King's three volume work in 1721[19], and they have been re-stated in various forms by intellectuals advocating industrialization from the perspective of late development.[20] Therefore, the only novelty introduced in the dissertation is that they are used specifically to analyze the possible developmental impacts of regional economic integration (REI) arrangements, i.e. instead of "good" and "bad" trade à la King's taxonomy, we look at "good" and "bad" types of REI arrangements.

At the empirical level, there is hardly any literature that looks at the linkages in Africa between industrialization and structural transformation on the one hand and REI on the other hand. Therefore, besides proposing an alternative theoretical framework to assess developmental implications of REI arrangements, the dissertation (**II**) contributes to the literature by closely looking at the relationship between REI and the level of industrialization (or lack of it) in the integrating economies, i.e. how the proportion of manufactures in the composition of a country's exports is linked with the level of its trade with another economy with which it is engaged in some form of REI. Besides employing the taxonomic principles identified in **II**, **III** is possibly the first systematic attempt to critically review the performance of the economy diplomacy-oriented foreign policy of Ethiopia (which was issued in 2002).

As shown in **Annex I**, the issue of persistent trade deficits is one of the major blind spots and weaknesses of the mainstream theories of international trade (classical, neoclassical and new trade theories alike). Therefore, the dissertation sheds light on the issue of persistent and widening external trade deficits which, though ignored in the literature, are some of the major challenges facing late-developing economies such as most African economies (**Annex I**). One of the novelties of the research in this particular

[19] Charles King. 1721. *The British Merchant, or, Commerce Preserved*: in Three Volumes. Reinert and Kattel (2004) summarize King's view as follows: "Good trade is importing raw materials and exporting finished goods. Exporting finished goods produced from native raw materials is the best kind of trade for a nation, but importing raw materials and exporting the finished goods is also good trade. Importing manufactured goods in exchange for raw materials is bad trade. But interestingly, exchanging manufactured goods for other manufactured goods is beneficial to both sides, i.e. mutually good trade" (ibid., 6).

[20] See e.g. Friedrich List (1841[1909]) for the case of Germany; H.C. Carey (1888) for the case of the USA and Gebrehiwot Baykedagn (1924) for the case for Ethiopia. Kaldor's Four Laws are also excellent summaries of these principles, where he saw industrialization as the only escape route out of increasing impoverishment (Targetti, 2005, 1197) and argued that: (1) economic development requires industrialization; (2) this in turn presupposes an "agriculture revolution"; (3) entering into the global market requires a temporary stage of protection for newly established industries; (4) this must be accompanied by export-led growth policies (ibid., 1186).

focus area of the dissertation is its explicit attempt at theoretically and empirically identifying structural causes of persistent trade deficits and demonstrating that trade liberalization and asymmetric economic integration of underdeveloped economies with advanced ones lead to a persistently widening trade deficit.

As indicated above, there has been a long-standing consensus on the importance of education for economic development among scholars and within development policy circles – without any regard for the productive structure of a late-developing economy and attempts at changing the productive structure. There has hardly been any previous research which questions this consensus in recent years. Moreover, there is a paucity of research which looks at the effect of the productive structure of the economy on the quality, effectiveness and external efficiency of education in a developing economy context. Therefore, the dissertation questions this consensus by critically examining the achievements and challenges of the education sector in Ethiopia (1991–2017) from the perspective of long-term economic development and structural transformation (**IV**).

1.5 Summary of major findings and conclusions

As implied in the above sections, the overarching understanding of late economic development in this dissertation is essentially as a long-term process of changing the productive structure of an economy away from specialization in "nature-intensive", low-skill, low-knowledge, and low-technology economic activities towards an economy that is predominantly "knowledge-intensive", higher-skill and technology-intensive in its structure. It is with this understanding that the dissertation has tackled various elements and aspects of structural transformation.

Overall, given the weaknesses identified in the mainstream academic literature and gaps in the international development discourse of the past few decades, one of the key objectives in four of the five focus areas of this dissertation is to outline alternative, more realistic theoretical and analytical frameworks. The alternative theoretical frameworks proposed in the dissertation are based on a usually ignored alternative tradition in economics, the policy recommendations of which have been proven to work time and time again in context-specific application in almost all the major historical cases of late-development and industrialization throughout the world. Therefore, our policy recommendations in all the papers that make up this dissertation fall into this tradition of economics and tend to substantially differ from those of the currently dominating academic literature and international development discourse. As discussed particularly in **I**, the core ideas of this alternative tradition of economics have been admitted to be valid by some of the major figures within the mainstream economics (such as Paul Krugman); but ironically, mainstream economics has sacrificed theoretical/logical validity, relevance and practical applicability in the name of mathematical elegance and simplicity.

As we argued in the dissertation (**I**), from the perspective of late developing economies that aspire to eventually catch up with advanced economies, realism, relevance and practical applicability should precede any mathematical elegance and simplicity of theoretical models. This is the theoretical position held throughout the dissertation. In particular, as discussed in the methodological section above, we have taken issue with standard theoretical frameworks as applied to late-development contexts for their unrealistic assumptions that fundamentally condition their conclusions, thereby leading to inappropriate and ahistorical policy recommendations. For instance, one reason the mainstream literature fails to explain economic

underdevelopment, “unequal exchange” and long-term divergence between lagging and advanced economies is the fact that it makes unrealistic assumptions in its theories and models.

One important such assumption analyzed in this dissertation is the prevalent assumption of full employment of *all* resources in an economy made by mainstream theories and models. This assumption has been found to be the key reason why both standard human development theories, and traditional, neoclassical and new international trade theories arrive at unrealistic, counter-intuitive conclusions and policy recommendations that are ahistorical and detrimental to late development and structural transformation. One good example that came out clearly in discussions in the dissertation is the doctrine of comparative advantage, which advocates for free trade between developed and developing countries, which would, in effect, condemn the less-developed economy in the asymmetric economic integration arrangement to specialization in “nature intensive” or “bounties of nature” type economic activities. And we have argued in the dissertation that specialization in such kinds of economic activities is tantamount to specializing in poverty and underdevelopment. Moreover, we have argued that full employment assumption is not just inappropriate for developing-country contexts, but also that creating productive and well-paying employment for the large proportion of the unemployed, disguised unemployed and underemployed is a key policy goal (at least it should be) in developing-country contexts.

Some of the more specific conclusions of the dissertation are highlighted below.

a) Focus Area I

The dissertation has shown that the core ideas and policy proposals of GHB in particular and those of the broader intellectual tradition that he represents are valid, relevant and feasible in the current context of late-developing countries as long as they are innovatively adapted to the unique context of each country and to the broader international policy context.

Compared to thinkers of the alternative tradition of economics, in our view, one particular area where GHB excels is his understanding of the negative impact of asymmetric economic integration between technologically and structurally “unequal” economies on the prospect of late development and catch-up by the less developed economy. For him, the root causes of the “unequal exchange” in international trade between producers of primary commodities and producers of manufactured products are the knowledge, skill and technology embodied and employed in the products and the production process. Overall, his stress is on the creation of a diversified economy based on knowledge- and skill-based increasing-returns-to-scale activities, which is to be achieved through a dynamic and context-specific combination of import protection/substitution and export promotion strategies – strategies which have been found to be theoretically sound and historically validated by the experience of almost all the major cases of successful industrialization to date. The dissertation concludes that, while bearing in mind GHB’s emphasis on context specificity of development policies and institutions, policy makers of the present late-developing countries would do well to learn from him and other like-minded scholars of the past.

b) Focus Area II

The analysis of historical and current regional economic integration (REI) efforts in Africa using the taxonomic principles outlined in the dissertation clearly indicates that the size and composition of intra-Africa trade is critically dependent on the overall composition of the exports of African economies. Hence, the dissertation concludes that, as long as

African exports are dominated by primary commodities (i.e. as long as African economies are not industrialized), it is not reasonable to expect significant increases in intra-Africa trade as compared to extra-Africa trade. In other words, Africa is not trading much within itself because it has failed to industrialize.

In addition, the dissertation finds that both the low level of industrialization and intra-Africa trade are partly due to the way African economies are integrated with more advanced economies. Specifically, the bilateral, regional and multilateral trading arrangements that African economies have signed up to so far are such that they tend to integrate African economies as suppliers and sources of raw materials and natural resources – re-enforcing rather than reversing the colonial legacy.

Therefore, the dissertation concludes that if intra-Africa trade is to grow, two intertwined policy initiatives are required: domestic economic policies focused on industrialization and deliberate strategies to reverse the colonial-type trading arrangements and economic linkages with the advanced economies. In addition, the dissertation concludes that REIs in Africa need to be conceived and implemented as facilitators and amplifiers of domestic and regional industrialization strategies. There is also a clear need to deliberately reverse the outcomes of neoliberal globalization in the continent and re-focus on inward-looking industrialization – i.e. SSA countries need to introduce East Asian type, context-specific Import Substitution/Export Promotion policies and strategies – individually and collectively as part of REI initiatives (i.e. strategic integration rather than free-trade with advanced economies).

c) Focus Area III

The context for this area of focus is that Ethiopia issued Foreign Affairs and National Security Policy in 2002 which emphasized "economic diplomacy" as the cornerstone of its foreign policy. A central component of the strategy has been regional integration with Ethiopia's neighbours in the Horn and Eastern Africa. Another important contextual element is that Ethiopia's relations with its neighbours have been shaped not only by its internal social, economic, and political dynamics but also by the dynamics of the region, which is fraught with conflicts and political instability.

With this context, the dissertation found that Ethiopia has been implementing a strategy that revolves around regional integration through energy, road, rail, and water infrastructure, connectivity, and trade with its immediate neighbours. The approach has been to tie the region to Ethiopia by exporting electricity generated by dams on Ethiopian rivers and to facilitate cross-border trade by improving logistics, rail, and road transport connectivity. The dissertation has also found that Ethiopia has been investing heavily in transport infrastructure, energy connectivity, and improved logistics, and that a major motivating factor in this has been Ethiopia's landlockedness as the need to diversify its access to the sea has encouraged the Ethiopian government to invest heavily in infrastructure and energy connectivity and to develop friendly relations with Sudan, Somalia, and Kenya.

Meanwhile, its broader economic diplomacy has focused on attracting labour-intensive investments capable of generating as many jobs as possible, particularly given the high level of youth unemployment. Thus, the country has been pursuing policies, strategies, and incentive schemes that are aimed at attracting foreign direct investment (FDI). As a result, Ethiopia has become increasingly attractive for market- and resource-seeking FDI from advanced and emerging economies. Moreover, we find that, given the low level of economic development in most of Ethiopia's neighbouring countries, FDI inflows into

Ethiopia from these countries have been minuscule both in terms of the total capital invested and the number of licensed projects.

With respect to trade, mirroring the productive structure of the economy, the dissertation found that Ethiopia's external trade is very much dominated by unprocessed primary commodities, while its imports are predominantly manufactured products. The same is true with the structure of external trade of its neighbouring countries. As a result, the import-export trade of Ethiopia with its immediate neighbours has not been significant. We find that, interestingly, Africa accounts for a mere 3.9 per cent of Ethiopia's total imports out of which three African countries (Egypt, South Africa and Morocco) that have relatively better manufacturing bases compared to Ethiopia made up around 83%. On the other hand, countries such as Djibouti, Somalia, and Uganda have been insignificant suppliers of Ethiopia's import needs.

The overall conclusion is that Ethiopia's economic diplomacy towards its neighbours, apart from Djibouti and Sudan, has not produced substantial results, and one of the major reasons for the low level of economic exchange with the neighbouring countries is the similarity in the structure of their economies. Additionally, we conclude that, while success in developing the manufacturing sector in Ethiopia can potentially lead to increased trade with its neighbours in the future, the fact remains that most of the FDI projects in Ethiopia, which form the main pillar of its recent industrialization efforts, aim to produce products destined for advanced economies, with little spill-over effect to the region.

d) Focus Area IV

Within this area of focus of the dissertation, we have found that, since the earliest records of Ethiopia's export-import trade at the beginning of the 20th century, Ethiopia has always experienced trade deficits (with the exception of two or three fortuitous years). In fact, trade deficit has not only been a permanent and persistent feature of the country's external trade for more than a century. But also, the trade deficit has been constantly expanding over time, with the worst expansion of the deficits happening during the liberal era since the 1990s. For instance, the trade deficit increased 22-fold between 1997 and 2014 in nominal terms, and the import-covering capacity of export earnings of the country, which stood at about 52.64% in 1997, dropped to 20.23% in 2014. These developments occurred not only due to the initial gap between imports and exports but because imports grew faster than exports on average.

The dissertation explains the persistent and ever-widening trade deficits of Ethiopia through the analysis of the technological, skill and innovation structure of its exports and imports. Specifically, it concludes that the persistent deficits are primarily the results of the fact that Ethiopia's exports have been predominantly (close to 90% on average) primary commodities with a very high level of dependence on an extremely narrow range of export items, whereas the vast majority (in terms of value) of the country's imports are composed of machinery, equipment and other manufactured products. That is, the country has been suffering a persistent and generally worsening trade deficit throughout these decades as it had essentially been exchanging primary commodities for capital goods and other manufactured products – i.e. low-skill, low-technology, and low-value-added commodities for products that employ and embody much more technology, value-added and know-how. Thus, the persistent and growing trade deficit reflects the technological and skill structure of the exports and imports of the country.

Moreover, the dissertation concludes that the export-import structure of the country is a reflection of the lack of productivity growth and change in the productive structure

of the country, and the economy has been operating with extremely backward technology. Thus, we find that it is this failure of structural transformation which is reflected in the contrasting structure and technological content of the imports and exports of the country, which, given the well-known nature of trade between primary commodities and manufactured products, is being reflected in the persistent and ever widening trade deficit of the country. The dissertation also found that this structural trend of trade deficits has been amplified and reinforced by the liberalizations that began in the early 1990s, which led to disproportionately higher growth in imports compared to exports. As a result, the export promotion drive of the government and its international partners has utterly failed to reverse this trend. Consequently, the dissertation concludes that if the current trend in the growth rate of export earnings and imports values continues, it is absolutely impossible to ever close the gap.

Therefore, the dissertation concludes that since the root causes of the country's persistently widening trade deficits are structural in nature, the only way to sustainably address them is by changing the overall productive structure of the economy, thereby changing the technological structure and composition of exports, and by reducing the overdependence of the nascent economy on imports. As for the theories and empirical models that are the backbone of the academic and policy discourse on international trade, the lesson that can be drawn from the case study presented in the dissertation is that in contexts like Ethiopia where trade has never been balanced and unemployment has always been one of the biggest policy challenges, assumptions of automatically balancing external trade and/or full employment are clearly contrary to reality and hence inappropriate to say the least.

e) Focus area V

With respect to analytical methodology, the dissertation finds that the standard theoretical approach to human development is inappropriate to study education and economic development in Ethiopia. Therefore, the dissertation employed an alternative theoretical framework that puts a high emphasis on education in the process of economic development but argues that investments in education and human capital development need to be nested and managed in a coordinated and synergistic manner with other components of an industrialization and structural transformation strategy.

In this focus area of the dissertation, we have found that Ethiopia has registered impressive success in education since 1991 in the form of access to all levels of education, reflecting the focus and consistent commitment of the government. However, this success has been achieved at the expense of education quality at all levels in the form of a vicious cycle, where low-quality inputs from the lowest level to the highest generate second- and third-round effects, continually eroding the quality of education. The dissertation has attempted to demonstrate that lack of equivalent investment and focus in the country towards changing the productive structure of the economy meant that the education system and the economy in general could not afford to keep the best and the brightest human-resources of the country inside the education sector and the economy, respectively – thereby amplifying and maintaining the vicious cycle of low-quality education.

It has also found that the achievement of the massive expansion of access to education has also resulted in increased unemployment and underemployment of the educated human resources, the loss of the best and the brightest human resources to the developed world. Thus, in brief, the expansion of education in Ethiopia since 1991 without an equivalent focus on and achievement of structural transformation and

creation of high-skilled and well-paying jobs has resulted in the country being one of the worst affected in Africa with respect to brain-drain. In addition, the dissertation argues that the failure to effectively and productively put the potential of the skilled and educated human resources to maximum use negatively affects the prospects for industrialization and structural transformation.

Therefore, the dissertation concludes that breaking the two mutually re-enforcing vicious cycles of unbalanced focus on achieving social goals (of education) at the expense of changing the productive and technological/skill structure of the economy, and loss and waste of precious human resources to brain-drain, unemployment and underemployment requires well-crafted, synergistic, dynamic, context-specific and comprehensive policies and strategies. The policies and strategies would be aimed at deliberately and progressively moving the Ethiopian economy away from its current specialization in nature-intensive, low-skill, low-knowledge, and low-technology economic activities towards "mind-intensive", higher-skill and technology-intensive economic activities.

1.6 Avenues for future research

This dissertation deals with some key aspects of structural transformation, industrialization and economic integration from the perspective of late-developing economies, using an evolutionary, historical and institutionalist theoretical approach. However, it has not adequately covered some important aspects of the topics. In particular, we are of the opinion that the following four specific issues that are closely related to the topic of this dissertation are worth exploring in depth and detail:

a) ***Sustainability of aid and debt financing of social-service provision and its implications on prospects of structural transformation in Ethiopia*** – In this dissertation it has been noted that development in late-developing economies is to be financed mainly through domestic resources (see for example Gebrehiwot, 1924, 64; Nurkse (1961, 141; as cited in Kattel et al., 2009). However, it was also indicated above how the dominant development discourses and frameworks, such as the MDGs and SDGs, emphasize external financing of development in today's developing economies. Though we highlighted some of the sustainability-related issues of this approach (**IV**), we were not able to fully flesh out the implications of debt and aid financing of social services from the perspective of long-term economic development and structural transformation. A particularly interesting case study would be Ethiopia, which, under the pressure and incentives from international donors and international financial institutions, has been investing heavily in social-service provision, including financing of urban social safety nets through long-term concessionary loans.

b) ***Foreign financing of economic development in late-developing economies: case study of foreign direct investment (FDI) in non-tradable sectors and its implications on the balance of payments in SSA*** – Again, the alternative tradition of development economics forcefully argues that the financing required to industrialize a late developing economy has to be raised almost exclusively from domestic sources through the creation of economic surplus, domestic savings and channelling of savings into productive investments (Gebrehiwot, 1924, 65). However, over recent decades, the mainstream development discourse has more or less unanimously endorsed FDI into developing economies as key sources of financing development. However, there are very few studies that take an in-depth look at the implications of FDI into non-tradable sectors, in particular on the balance of payments of the FDI host countries. For instance, for a long

time Ethiopia had focused on export-oriented FDI only and restricted FDI from entering into sectors like finance, telecoms, and wholesale/retail merchandise trade. However, under intense pressure from international economic organizations, IFIs and donors, it is now warming up to allowing FDI into these sectors and has been actively seeking FDI into other non-tradable sectors such as cement as well as products that are theoretically tradable but practically meant for the growing home market. We are of the opinion that there is a need to study the implications of FDI into these sectors, given the serious challenge of persistent trade deficits facing the country (**Annex I**) and the associated balance of payment (BOP) problems. To the best of our knowledge, there has not been any serious study looking into this issue to date.

c) ***"Cheap Labour" vs. "High Wage" Paths to Economic Development: logic, risks and opportunities with respect to structural transformations in SSA*** – As discussed in this dissertation (see for example **IV**), from the perspective of the alternative tradition of economics discussed in the dissertation, creation of productive formal employment is a key challenge and policy objective because massive unemployment, underemployment and the lack of purchasing power are the key impediments to the formation and expansion of businesses in developing countries (see Reinert, 2006 and Reinert, 1999 for details on this). The implication of this line of thinking with respect to the recommended policy direction is to take what economists of the 19th-century American system of political economy called "the high wage path". However, the dominant academic literature and policy discourse, particularly with respect to Africa, has been advocating for a "low wage path", where countries are supposed to market themselves as home to cheap labour that can be tapped into by FDI that is driven out from countries such as China due to rising labour costs. Within this context, we are of the opinion that a study that closely looks at the logic, risks, opportunities and challenges of taking "the low wage path" is worth attempting. Once again Ethiopia could be used as a case study, as it has currently embarked on a large-scale industrial parks development initiative (largely financed through foreign loans) with a view to attract "cheap labour-seeking FDI" from countries such as China, Turkey and India.

d) ***Urbanization without Industrialization in SSA*** – As discussed in **II** in particular, SSA has failed to achieve any meaningful level of industrialization to date. Meanwhile, according to a recent UN report, Sub-Saharan Africa (SSA) is often regarded as the world's fastest urbanizing region, with urban areas currently containing 472 million people and expected to double over the next 25 years.[21] We think that it would be interesting to study the implications and challenges associated with these two phenomena through the lens of the now-ignored insights from economists of the alternative tradition, such as Heinrich von Thünen (1783–1850), Friedrich List (1789–1846), and Joseph Schumpeter (1883–1950). Even if there is some interest in addressing the issues of rapid urbanization in Africa in recent years, we are not aware of any study that attempts to apply the insights from the alternative tradition of economics to tackle the challenges of rapid urbanization in the African context of stagnant/stalled industrialization.

[21] Source: https://www.csis.org/analysis/urbanization-sub-saharan-africa (accessed on 28 September 2018).

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Abstract
The Economics of Late Development, Industrialization and Economic Integration: with Case Studies of Ethiopia

The academic context for the dissertation is that structural transformation of late developing economies were ignored for at least three decades both in the mainstream academic literature and international development discourse. Moreover, even when the issue came back in the past few years into both the academic literature and policy discourse, it has been framed within the tenets of mainstream or neoclassical economics and mostly sticks to the doctrine of comparative advantage which runs against historical evidence of successful late development and industrialization. In addition, the "development" debate has also tended to focus solely on internal factors that determine success/failure in development, assuming that external market forces are always benign, with strongly positive influences on economic performance and prospects. Thus, the overarching aim of this dissertation is to try to bring back academic attention towards various aspects of structural transformation and industrialization in the context of late-developing economies. Specifically, the dissertation deals with some aspects of structural transformation, industrialization and economic integration from the perspective of late-developing economies, such as those in SSA in general and Ethiopia in particular.

The methodological approach that has been used in the dissertation is diverse and eclectic, given the diverse nature of the topics covered. However, there is an underlying theme that runs through all of these papers: structural transformation and industrialization of late-developing economies. The contextual meaning of structural transformation and economic development employed throughout the dissertation is developed over the course of writing the various parts and considers economic development essentially as a long-term process of changing the productive structure of an economy away from specialization in "nature-intensive", low-skill, low-knowledge, and low-technology economic activities towards "knowledge-intensive", higher-skill and higher-knowledge and technology-intensive economic activities. Another unifying methodological feature of the papers included in this dissertation is that all the papers attempt to critically examine, review and identify the weaknesses and flaws of the standard theories of economics and then propose more realistic alternative approaches – particularly in the sense of reflecting the actual realities in late-developing economies, such as those in SSA.

A second overarching methodological feature of the dissertation is that it employs an alternative tradition of economics, which can be described as historical, evolutionary and institutionalist and whose kernels could be traced back at least to the work of Antonio Serra (1613). In fact, the first area of focus of the dissertation is the presentation of the key ideas of this tradition of economics through the review of the work of Gebrehiwot Baykedagn (GHB) (1886–1919). Within this focus area, an attempt is also made to consider the current relevance of his key ideas with the view to drawback attention to two key issues related to late development: industrialization and the type of external economic relations with advanced economies that facilitate industrialization in a late developing economy. In terms of findings, the dissertation concludes that the core ideas of this alternative tradition of economics have been admitted to be valid by some of the major figures within the mainstream economics; but ironically, mainstream economics has sacrificed theoretical/logical validity, relevance and practical applicability in the name of mathematical elegance and simplicity. However, the dissertation argues that

from the perspective of late developing economies that aspire to eventually catch up with advanced economies, realism, relevance and practical applicability should precede any mathematical elegance and simplicity of theoretical models. Therefore, it concludes that, while bearing in mind the context specificity of development policies and institutions, policy makers of the present late-developing countries would do well to learn from GHB and other like-minded scholars of the past.

The second focus area of the dissertation is the interrelationships between structural transformation and REI, whereby the linkages between industrialization and structural transformation on the one hand, and REI on the other hand by outlining taxonomic principles of transformative REI are considered based on the insights from the historical, evolutionary and pragmatic alternative tradition of economic thought. The taxonomic principles are then employed to evaluate different types of economic integration arrangements vs. their implications for structural transformation and industrialization in less developed economies. The analysis in the dissertation clearly indicates that the size and composition of intra-Africa trade is critically dependent on the overall composition of the exports of African economies. Hence, the dissertation concludes that as long as African exports are dominated by primary commodities (i.e. as long as African economies are not industrialized), it is not reasonable to expect significant increases in intra-Africa trade as compared to extra-Africa trade. In addition, the dissertation finds that both the low level of industrialization and intra-Africa trade are partly due to the way African economies are integrated with more advanced economies. Therefore, the dissertation concludes that if intra-Africa trade is to grow, two intertwined policy initiatives are required: domestic economic policies focused on industrialization and deliberate strategies to reverse the colonial-type trading arrangements and economic linkages with the advanced economies.

The third focus area of the dissertation is the application of the taxonomic principles of transformative REI (referred to above) for the analysis of Ethiopia's economic diplomacy and REI efforts vs. its immediate neighbours. In other words, an attempt is made to assess the effectiveness of the economy diplomacy efforts and initiatives of the country (particularly since 2002) vis-à-vis the economic structure of the country as well as its immediate neighbours. The overall conclusion in this area of focus is that Ethiopia's economic diplomacy towards its neighbours, apart from Djibouti and Sudan, has not produced substantial results, and one of the major reasons for this is the similarity in the structure of their economies as a result of which the Ethiopian economy is more integrated (e.g. with respect to trade and investment) with more distant but advanced (industrialized) economies (than its neighbours).

The fourth focus area is the issue of persistent trade deficits which have been ignored for decades by both academic and policy literature. A detailed case study of Ethiopia is employed in the dissertation to demonstrate the linkages between persistent trade deficits and economic structure, and to demonstrate that trade liberalization and asymmetric economic integration of underdeveloped economies with advanced ones leads to a persistently widening trade deficit. The study shows that Ethiopia's persistent and consistently widening trade deficits are intimately related to the fact that the country has been exchanging low-skill, low-technology, and low-value-added commodities for products that employ and embody much more technology, value-addition and know-how. Thus, the persistent and growing trade deficits are found to reflect the technological and skill structure of the exports and imports of the country; and the export-import structure of the country is found to be a reflection of the lack of

productivity growth and change in the productive structure of the country. Therefore, the dissertation argues that the only way to sustainably address the persistent trade deficits of Ethiopia is by changing the overall productive structure of the economy, thereby changing the technological structure and composition of exports, and by reducing the over-dependence of the nascent economy on imports.

The fifth and last area of focus of the dissertation is to put into question the strong and unqualified belief in the academic and policy literature of the past few decades on the importance of investment in human capital – particularly education – in developing economies without regard for the productive structure of the economy. Thus, an attempt is made in the dissertation to critically examine the achievements and challenges of the education sector in Ethiopia between 1991 and 2017 from the perspective of long-term economic development and structural transformation. Attempts are made to identify linkages between the disproportionate focus on investment in education (without paying sufficient attention to changing the productive structure of the economy) with a vicious cycle of low-quality education, persistently high levels of unemployment, underemployment and brain-drain of the better educated human resources of the country.

The dissertation finds that Ethiopia has achieved enormous success in terms of increasing access to all levels of education throughout the country, but the achievement has been at the cost of a vicious cycle of low education quality. In addition, the dissertation argues that the failure to significantly change the productive structure of the economy has resulted in persistently high levels of unemployment, underemployment and brain-drain of the better educated human resources of the country. It concludes that there is a need for synergistic, dynamic, context-specific and comprehensive policies and strategies aimed at progressively moving the Ethiopian economy away from its current specialization in nature-intensive, low-skill, low-knowledge, low-technology economic activities towards “mind-intensive”, higher-skill and technology-intensive economic activities.

Lühikokkuvõte
Hilise arengu, industrialiseerimise ja majandusliku integratsiooni ökonoomika Etioopia näite varal

Käesoleva väitekirja akadeemiliseks tõukeks on tõdemus, et hilise majandusarenguga riikide strukturaalne transformatsioon ei ole viimase kolmekümne aasta jooksul leidnud käsitlemist ei peavoolu teaduskirjanduses ega ka rahvusvahelises arengudiskursuses.

Veelgi enam, isegi kui hilise majandusarengu teema hakkas mõne aasta eest taas teadusringkondi ja majanduspoliitikuid huvitama, vaadeldi seda eelkõige peavoolu või neoklassikalise majandusteooria raamistikus ja eeskätt suhtelise eelise teooria kontekstis, mis ei lähe aga kokku hilise majandusarengu ja industrialiseerimise edukate näidetega ajaloost. Lisaks on majandusarengu käsitlustes kiputud otsustava faktorina esikohale seadma eelkõige siseriiklikke tegureid, millest siis arengu edukus või selle läbikukkumine tuleneb, lähtudes eeldusest nagu oleks välistel teguritel majandusarengule alati positiivne ja soodustav mõju.

Käesoleva väitekirja suurem eesmärk on tuua hilise majandusarenguga riikide strukturaalsete muudatuste ja industrialiseerimise erinevad aspektid tagasi akadeemilisse huviorbiiti. Töös keskendutaksegi erinevatele strukturaalsete muutuste, industrialiseerumise ja majandusliku integratsiooni protsessidele Sahhara-taguse Aafrika hilise majandusarenguga riikides, vaadeldes põhjalikumalt vastavaid arenguid Etioopias. Tulenevalt käsitletavate uurimisteemade eripalgelisusest on uurimistöös kasutatud mitmekesist metodoloogiat. Samas on kõikide väitekirjas koondatud uurimuste keskmes strukturaalsed muutused ja industrialiseerimisprotsess hilise majandusarenguga riikides. Strukturaalse muutumise ja majandusarengu kontekstuaalne tähendus käesolevas väitekirjas on väljakujunenud kirjutamisprotsessi käigus ja käsitleb majandusarengut eelkõige pikaajalise tootmisstruktuuri muutumise protsessina, mis liigub toormemahuka, madala oskus- ja teadmustaseme ja vähese tehnoloogiakasutusega majandustegevuselt teadmuspõhisele, kõrget kvalifikatsiooni nõudvale ja tehnoloogiamahukale majandustegevusele.

Teiseks antud uurimistöö artikleid ühendavaks jooneks on kriitiline lähenemine klassikalistele majandusteooriatele, püüdes tuvastada ja välja tuua traditsiooniliste teooriate vajakajäämisi ja möödalaskmisi ning pakkuda realistlikumaid alternatiivseid lähenemisi, mis peegeldaksid adekvaatsemalt hiljuti arenema hakanud majandusega riikide, nagu seda on Sahhara-tagused riigid, tegelikke olusid.

Väitekirja läbiv metodoloogiline suund põhineb alternatiivsele majandusteoreetilisele lähenemisele, mis on pigem ajalooline, evolutsiooniline ja institutsionaalne ulatudes ajas tagasi minnes Antonio Serra töödeni (1613). Väitekirja esimeses osas tutvustatakse selle majandusteooreetilise suuna põhialuseid andes ülevaate Gebrehiwot Baykedagni (1886-1919) töödest. Tema ideede aktuaalsust vaadeldakse ka tänapäevases kontekstis, viidates kahele hilise majandusarenguga seonduvale võtmeküsimusele, milleks on industrialiseerimine ja välismajanduslike suhete iseloom arenenud riikidega, mis soodustavad hilise arenguga majanduste industrialiseerumist. Uurimistöö tulemusena jõutakse järeldusele, et alternatiivse majandusteooria võtmeideed on osutunud ka mitmete nimekate peavoolu majandusteadlaste hinnangul paikapidavaks. Paraku on aga peavoolu majandusteoreetiline lähenemine toonud matemaatilise elegantsi ja lihtsuse huvides ohvriks teoreetilis-loogilise valiidsuse, asjakohasuse ja praktilise rakendatavuse. Siiski väidab käesolev uurimistöö, et hilise majandusarenguga riikide, kelle eesmärgiks on jõuda järele arenenud riikidele, seisukohast peaks teoreetiliste mudelite elegantsist ja

lihtsusest olulisem olema nende mudelite realistlikkus, asjakohasus ja praktiline kasutatavus. Kokkuvõtteks oleks majandusarengu poliitikate ja institutsioonide konteksti spetsiifilisust arvestades hilise majandusarenguga riikide poliitikakujundajatele abiks see, kui nad võtaksid õppust ka Gebrehiwot Baykedagni ja teiste ajaloost teadaolevate samasuguste vaadetega teadlaste töödest.

Väitekirja teine uurimisküsimus puudutab strukturaalsete muutuse ja piirkondliku majanduskoostöö vastastikust mõju, olgu siis läbi industrialiseerumise ja struktuurse muutuse vaheliste seoste või läbi piirkondliku majandusintegratsiooni. Nende muutujate vastastikkuse mõju uurimiseks visandatakse ja rakendatakse piirkondlikku majandusintegratsiooni kirjeldav taksonoomia, mis põhineb ajaloolise, evolutsioonilise ja pragmaatilise alternatiivse majandusteooria traditsioonidele. Neid samu taksonoomilisi printsiipe rakendatakse analüüsimaks erinevaid majandusintegratsiooni lahendusi ning nende mõju majanduse struktuursele muutumisele ja industrialiseerumisele hilise majandusarenguga riikides.

Väitekirja analüüs osutab selgelt, et Aafrika-sisese kaubavahetuse maht ja iseloom on kriitiliselt sõltuv Aafrika riikide ekspordi üldistest näitajatest. Seega järeldab uurimistöö, et kuniks Aafrika ekspordis domineerib tooraine, st Aafrika riikide majandus ei ole industrialiseerunud, ei ole ka alust eeldada Aafrika-sisese kaubavahetuse märgatavat kasvu võrreldes väljaspoole suunatud kaubavahetusega. Lisaks leiab väitekiri, et madal industrialiseerituse tase ja tagasihoidlik Aafrika-sisene kaubavahetus on osaliselt tingitud viisist, kuidas Aafrika majandused on arenenud majandustega integreeritud. Sestap järeldab väitekiri, et Aafrika riikide omavahelise kaubavahetuse elavdamiseks tuleks käivitada kaks omavahel seotud poliitilist initsiatiivi: siseriiklikud majanduspoliitilised meetmed, mis keskenduksid industrialiseerimisele ja sihipärane strateegiate rakendamine, et kujundada ümber senised koloniaalse iseloomuga kaubandus- ja majandussuhted arenenud riikidega.

Väitekirja kolmas huvikese on ülalmainitud transformatiivse piirkondliku integratsiooni taksonoomiliste põhimõtete rakendamine Etioopia majandusdiplomaatia analüüsimiseks ja regionaalse majandusintegratsiooni süvendamiseks võrdluses naaberriikide samalaadsete algatustega. Teisisõnu on siin tegu katsega hinnata riigi majandusdiplomaatiliste sammude tulemuslikkust (eelkõige alates 2002. aastast) vis-à-vis riigi majanduse struktuuriga ja võrdluses naaberriikidega. Kokkuvõtteks võib selle teema puhul öelda, et Etioopia majandusdiplomaatia oma naabrite suunal, kui arvata välja Dijbouti ja Sudaan, ei ole olnud eriti tulemuslik ja selle üheks peamiseks põhjuseks on nende riikide ühetaoline majandusstruktuur, mistõttu Etioopia on kaubanduse ja investeeringute osas rohkem lõimunud kaugemal asuvate arenenumate majandustega kui oma naaberriikidega.

Uurimistöö neljas fookus käsitleb alalist kaubavahetuse puudujääki, mis on jäänud nii akadeemilistes kui ka majanduspoliitilistes käsitlustes juba aastakümneid tähelepanuta. Etioopia näite varal demonstreeritakse seoseid püsiva kaubavahetuse puudujäägi ja majanduse struktuuri vahel ning tuuakse välja, et vähearenenud majandusega riikide kaubanduse liberaliseerimine ja asümmeetriline majanduslik integreerumine arenenud majandustega viib järjest kasvava väliskaubanduse defitsiidini.

Uurimistööst nähtub, et Etioopia püsiv ja kasvav kaubavahetuse puudujääk on tihedalt seotud asjaoluga, et riik on vahetanud oma teadmusvaest, madalatehnoloogilist ja vähese lisaväärtusega toodangut kaupade vastu, mis on märksa tehnoloogia- ja teadmusmahukamad. Seega peegeldab püsiv ja suurenev väliskaubanduse defitsiit riigi ekspordi ja impordi olemasolevat tehnoloogilist ja oskuspõhist struktuuri. Ühtlasi osutab

säärane ekspordi-impordi struktuur puudujääkidele tootlikkuse kasvu vallas ja muudatusele riigi tootmisstrukuuris. Sellest tulenevalt väidab uurimistöö, et ainus jätkusuutlik viis Etioopia kaubavahetuse puudujäägiga toimetulekuks on majanduse üldise tootlikuse struktuuri muutmine, mis kujundaks ümber ka tehnoloogilise baasi ja ekspordiprofiili, vähendades nii tärkava majanduse liigset sõltuvust impordist.

Viiendaks ja viimaseks uurimisteemaks on küsimus sellest, kuivõrd õigustatud on viimastel aastakümnetel akadeemilises kirjanduses ja majanduspoliitilistes lähenemistes maad võtnud kindel ja kõigutamatu veendumus inimressurssi investeerimise prioriteetsusest, rõhutades iseäranis hariduse tähtsust areneva majandusega riikides, pööramata sealjuures tähelepanu majanduse tootlikkuse struktuurile. Nii on väitekirjas võetud luubi alla Etioopia haridussektori saavutused ja sõlmküsimused aastatel 1991-2017, analüüsides neid pikaajalise majandusarengu ja strukturaalsete muutuste aspektist. Uurimistöö üritab selgitada ka seda, kuidas on seotud ebaproportsionaalne keskendumine haridusinvesteeringutele (ilma, et pööratakse piisavalt tähelepanu majanduse tootlikkuse struktuuri muutmisele) sellega, et endiselt jätkuvad probleemid madala hariduskvaliteedi, püsiva kõrge tööpuuduse, alahõivatuse ja ajude äravooluga riigist. Uurimistöös leitakse, et Etioopia on küll teinud tohutuid edusamme hõlbustamaks ligipääsu kõikidele haridustasemetele kodu riigi ulatuses, kuid selle hinnaks on olnud jätkuvalt madal hariduskvaliteet. Lisaks osutab väitekiri, et kuna pole õnnestunud oluliselt muuta majanduse tootlikkuse struktuuri, on see tinginud kõrge tööpuuduse püsimise, alahõivatuse ja ajude äravoolu riigist.

Kokkuvõtteks rõhutab väitekiri vajadust sünergiliste, dünaamiliste, konteksti arvestavate ning laiapindsete majanduspoliitikate ja strateegiate järele, mille eesmärgiks on Etioopia majanduse sihipärane suunamuutus praeguselt loodusressursside mahukalt, madalate oskustega, teadmusvaese, vähese tehnoloogiaga majandustegevuselt teadmuspõhiseks, kõrgema kvalifikatsiooniga tehnoloogiakeskseks majanduseks.

Appendix

Publications

Paper I

Zinabu Samaro Rekiso. (2018). Economics of Late Development and Industrialization: Putting Gebrehiwot Baykedagn (1886–1919) in Context. *Cambridge Journal of Economics, bey001*. Retrieved on 06 November 2018 from https://doi.org/10.1093/cje/bey001.

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Economics of Late Development and Industrialization: Putting Gebrehiwot Baykedagn (1886–1919) in Context

Zinabu Samaro Rekiso

During the past few decades, developing countries have been pushed by international economic institutions and developed countries to effectively abandon promotion of industrialization and structural transformation as a key developmental agenda. In addition, the 'development' debate of recent decades has tended to focus solely on internal factors as if external economic forces are always benign. Within this context, this paper analyzes the key ideas of Gebrehiwot Baykedagn (GHB) (1886–1919), traces their lineages and considers their feasibility and relevance for current developing economies. In a nutshell, for GHB, the main keys to economic development are the creation, accumulation and use of knowledge and skill, technology, innovation and technical change and the means of economic development are deliberate, dynamic and comprehensive sets of state-directed, synergistic interventions that aim at moving an economy away from 'nature-intensive' economic activities towards knowledge-, skill-, technology- and innovation-based ones. Based on analysis of historical and theoretical evidence, this paper argues that the main ideas of GHB and his colleagues are still valid, feasible and relevant for today's developing economies as long as they are innovatively tailored to the unique context of each country and to the broader international policy context.

Key words: Late industrialization, Structural transformation, 'Unequal exchange', Synergistic interventions, Import protection and substitution

1. Introduction

There was a general consensus until the late 1970s that economic development is largely about the transformation of the productive structure (and the capabilities that support it); and this was mainly to be achieved through industrialization (Chang, 2010, pp. 1–2). Recent research has also concluded that economic development requires structural change from low- to high-productivity activities, and that the industrial sector is a key engine of growth in the development process (Rodrik, 2007, p. 7; Hesse, 2008, p. 1). This conclusion is supported by the fact that virtually all cases of high, rapid and sustained economic growth in modern history have been associated with

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industrialization, particularly growth in manufacturing production (Szirmai, 2009). Consequently, the terms 'industrialized country' and 'developed country' are often used interchangeably (see Chang *et al.*, 2013 and Chang, 2014 on this.)

However, since the 1980s, industrialization and structural transformation as key developmental agenda were effectively abandoned in less developing countries (Safaeddin, 2005). This can be partly attributed to complexities and developments in the political economy contexts of the countries themselves. In important ways, it was also due to the intense pressures from international economic institutions and governments of the developed countries.[1] Moreover, the dominant global development discourse came to ignore the importance of structural transformation and industrialization to an extent that, at the more formal level, 'development' came to mean poverty reduction, provision of basic needs, individual betterment, sustenance of existing productive structure and so on (Chang, 2010, p. 2). Though the past few years have witnessed some sort of revival of interest in industrialization and structural transformation in academia and policy circles, this has been too faithful to the dominant neoclassical economics paradigm which undergirded the initial liberalization drive, and has generated policy recommendations that are not supported by any significant historical evidence (Storm, 2015, p. 670). In addition, the 'development' debate has also tended to focus solely on internal factors that determine success/failure in development, "assuming that external market forces are always benign, with strongly positive influences on economic performance and prospects" (Sundrama *et al.*, 2011, p. 2).

Under such a context, this paper analyzes the key ideas of Gebrehiwot Baykedagn (1886–1919) (GHB for short, herein after), one of the first African intellectuals to advocate for a coherent and comprehensive program of industrialization and to analyze the nature and impacts of economic integration of late-developing nations with more advanced ones. It also traces the origins and lineages of his ideas, and considers their current relevance with the view to drawback attention to two key issues related to late development: industrialization and the type of external economic relations with advanced economies that facilitate industrialization in a late-developing economy.

GHB is an author who has been known by many educated Ethiopians but virtually unknown outside his home country. Even in his home country, we are not aware of any scholarly writing that has properly assessed the intellectual lineages of GHB's ideas, their validity and how they relate to the current development thinking. Furthermore, no systematic analysis of his policy proposals and whether or not they are relevant to his home country or the wider African context has been done to date. Therefore, it is also the aim of this paper to fill this gap in analyzing his ideas, putting them in their proper intellectual context and assessing their relevance today. In this manner, we aim to argue that the core ideas and policy proposals of GHB in particular and those of the

[1] For instance, following decolonization in Africa, the internal political economy contexts and development management approaches followed by African governments were far from ideal and effective. According to Stein (2000), bureaucracies often expanded based on politics, not professionalism; states had a general antipathy for the private sector or patrimonialism that greatly affected the character of the private sector; both greatly weakened the group; state-owned or partly owned industries relied on aid frequently tied to technology from developed countries with high import coefficients and little linkage to local capabilities (ibid., p. 19). However, the onset of sweeping liberalization programs was forced upon African economies by the international financial institutions and their major donors following the *Berg Report*, which justified the sweeping liberalization initiatives arguing that Africa's comparative advantage lies in agriculture (Jomo, 2008, p. 9).

broader intellectual tradition that he represents are valid, relevant and feasible in the current context of late-developing countries as long as they are innovatively adapted to the unique context of each country and to the broader international policy context.

The rest of the paper is structured as follows. Section 2 provides biographical highlights about GHB and the context to his writing, and briefly reviews how his ideas have been received. Section 3 looks at GHB's ideas related to governance, institutions and the political economy that suits economic development. Section 4 presents a summary of the main theoretical arguments of GHB and other economists of the same intellectual lineage regarding determinants of economic development in a late-developing economy. Section 5 discusses GHB's explanation of the real causes of the observed 'unequal exchange' in the economic relations between backward and advanced economies. Section 6 considers GHB's policy proposals *vs*. the industrialization policy tool box that has been successfully employed in history for late industrialization. Section 7 relates his ideas with those of later development thinking; and Section 8 concludes.

2. Biographical background and the context of BHB's writings

Gebrehiwot Baykedagn (GHB) was born in 1886 in the village of Zengui/Maimshem, Adwa district, in what is today called Tigrai Region of Ethiopia (Tenkir, 1995, p. 19).[2] He attended elementary school at the Swedish missionary school at Minkulu, near Red Sea port of Massawa in present-day Eritrea (Bahru, 2009, p. x). According to Bahru (2002, pp. 49–50), that period was exceptionally turbulent in Tigray region due to the political disintegration and psychological void created by the death of Emperor Yohannes[3] of Ethiopia, the ravages of one of the longest and most devastating famines the country had ever known and the destruction that attended Emperor Menilek's campaign of 1890 to assert his new authority (ibid.). It was at this period that GHB fled to Hamasen (Eritrea) at the age of seven (Bahru, 2002, p. 50). During a trip to the Red Sea port of Massawa, GHB and his friends got permission from the captain of a German ship to visit the ship; and on departure, GHB stowed away; on arrival in Europe, the captain entrusted him to a rich Austrian family that adopted him. He studied medicine at Berlin University in Germany (ibid.).

After completing his study of medicine in Berlin, GHB returned to Ethiopia as part of a medical team sent from Germany to attend to the ailing emperor Menelik (Bahru, 2009, p. ix).[4] Upon his return to Ethiopia, he had to undertake an intensive study of the Amharic language and 'after seven months of studious application, he was able to master the language to such a degree that he was to emerge as one of the finest writers of Amharic prose' (Bahru, 2002, p. 50).[5] It is reported that, upon the recommendation of an official named *Dejjach* Yeggazu, GHB was made private secretary and interpreter

[2] All Ethiopian authors in this paper are referred to using their first names since this is the norm in the country.

[3] Dejazmach Kassa, governor of Tigray region, was crowned as Emperor Yohannes ('King of Kings') of Ethiopia in 1871. He died in March 1889 after being fatally wounded at the Battle of Metema, where his army defeated (Sudanese) Mahadists.

[4] Apparently he joined the German medical team and came back to Ethiopia, as he was unable to get employment in Europe because of the color of his skin (Alemayehu, 2004, p. 4).

[5] His language and writing skills are indeed very impressive in terms of clarity, conciseness and ability to express complex ideas in the economics of his times in simple and easily accessible manner. For instance, Tenkir (1995) states, 'Reading through the work of GHB in Amarina, I was impressed by the modernity of the prose and the clarity and simplicity of his exposition' (ibid., p. 18).

to the emperor (ibid.). It is also reported that he was attached to the German doctor Steinkuler, and detailed to treat the ailing emperor but 'failed to win the confidence of Empress Taitu, who reportedly forbade him to touch the invalid. The acrimony that subsequently developed between the empress and the German doctor, who had provoked the controversy about the poisoning of the ailing emperor, could also have reflected badly on his Ethiopian associate [i.e., GHB] … It was probably under these circumstances that he chose to exile himself to the neighboring British colony of the Sudan sometime in November 1909' (ibid., pp. 50–51; see also Bahru, 2009, p. ix).[6]

GHB returned from the Sudan to Ethiopia after about two years (Bahru, 2002), was hospitalized in Massawa (present-day Eritrea) and recovered with the financial support of a friend named Paulos Menameno (Gebre-Hiwot, [1912] 2009, p. 2). After recovering from this illness until his death in July 1919, GHB held two posts in the government: first he was assigned as Inspector of the Addis Ababa-Djibouti Railway (the only railway in the country at the time), and he briefly held the post of *Naggadras* (Chief of Commerce and Customs) of *Dre Dawa (*an important import-export trade hub) (Bahru, 2002, p. 52). As we shall see later, he apparently used the opportunity offered by these two positions for collecting and compiling the data which he later used to analyze the external trade of the country and to support his theoretical ideas related to economic development. According to one source,[7] GHB died of complications from grippe infection (a deadly type of flu) at an age of 33, a pandemic of which a great number of people died in Ethiopia between 1918 and 1919.

It is perhaps useful to briefly highlight the internal and external contexts prevailing in the then Ethiopia in order to better understand GHB's writings. The period during which he was writing was such that, even though Ethiopia was the only independent state in Africa and had repulsed Italy's attempt to colonize it at the famous Battle of Adwa in 1896 (but had conceded an important part of its territory—today's Eritrea—to Italy), it was surrounded by technologically and economically superior European colonial powers (Italy, France and Britain) who were competing with each other to take direct and indirect control of the country. Meanwhile, the internal situation was such that poverty and inequality was rampant in Ethiopia—with a very heavy burden of taxation and operation under a brutal feudalist aristocracy. Therefore, throughout his writings, one could clearly see his compassion and concern for the uneducated and downtrodden poor people; and so, using historical experiences of other countries, he warns the leaders of the time that Ethiopia was in an imminent danger of collapse and chaos due to sprouting signs of wealth concentration, exploitation of the poor (by the feudal aristocracy) and the general state of underdevelopment. Therefore, it is likely that these internal and external dynamics may have prompted him to forward reform proposals which were quite radical for their time (and context), and to forward them with such an urgency and earnestness.

GHB wrote two books in Amharic (the official language of Ethiopia), both of which were published by his friend Paulos Menameno.[8] The first one is *Atse Menilik ena*

[6] Surprisingly, despite all that he had endured at her hand, GHB had a balanced view of Empress Taitu: 'the major fault that he finds in her otherwise illustrious career is her attempt to disrupt Iyyasu's succession to Menilik, not the hard time she gave him and fellow intellectuals like Afawork [Gabra-Iyyesus] and Gabru [Dasta]' (ibid., pp. 51–52).

[7] Prince-Duke (*Leul-Ras*, in Amharic) Emru Hailesellasie (2008), *From What I Have Seen and What I Recall* (Kayehut ena Kemastawusew, in Amharic). Addis Ababa: Addis Ababa University Press, pp. 88–90.

[8] Paulos Menameno (*circa* 1884–1936) was an Ethiopian progressive intellectual, diplomat and English translator (GHB, [1912] 2009, Editor's note 1).

Ethiopia (*Emperor Menelik and Ethiopia)*, published in Asmara (present-day Eritrea) by *Berhan Yihun* in 1912.[9] According to Bahru (2002), GHB wrote this book during the time when he was hospitalized in Massawa, 'apparently while he was convalescing' (ibid., p. 51). This is a short book of just about 28 pages specifically written as an advice piece to Eyyasu Michael, the young heir-designate to Emperor Menelik.[10] In it, one could see clear policy proposals and ideas for reforming the Ethiopian state of the time. Some of the major issues that he highlights include the importance of education, building of constitutional and legal systems and institutions of good governance, the importance of domestic production of necessities (rather than importing) and the importance of learning and emulating from post-Meiji restoration Japan (particularly how Japan was emulating European technology and industrialization while maintaining its independence and cultural identity).

In this short work, GHB also argues that political independence without economic transformation (industrialization) is precarious and easily destroyable. However, a fuller exposition of these ideas had to wait for his second work. Thus, *Emperor Menelik and Ethiopia* is not a complete treatise in itself; rather, it essentially is a pamphlet that makes an urgent call to the emperor-designate to implement a reform package that could enable the country to emulate and adopt the knowledge and technology of Europe and survive and thrive in an age where underdevelopment meant perishing as a polity.[11] Nevertheless, it is remarkable for being the first-ever work in Ethiopia explicitly aimed at reforming and modernizing the Ethiopian state and economy.

The more significant work by GHB is *Mengistina YeHizb Astedader* (literally meaning 'Government and Public Administration'). In the preface to the book, Paulos Menameno (the publisher) states that, following the death of the author, he found the manuscripts of the book scattered in different places, and written partly in ink and partly in pencil. It was published in 1924 by the Berhanena Selam Press.[12,13] This book is essentially a treatise on political economy of development (or, in today's language, economics of development); however, there is no consensus among historians and commentators as to why GHB chose to give it this title. Nevertheless, it is very clear from the very beginning of the book that the author intended it to be specifically about how a people or nation may fail or succeed to develop and attain high standards of

[9] Translated by Beletu Kebede and Jacques Bureau into French in 1993 as 'L'Empereur Menelik et L'Ethiopie'. Addis Ababa/Paris: Maison des Etudes Ethiopiennes Institut National des Langues et Civilizations Orientales.

[10] Eyasu was emperor-designate from 1909 until he was deposed by the nobility and clergy and imprisoned in 1916—never officially assumed the throne.

[11] The proposed reforms include, among others, separation of the property of the emperor and that of the state; formation of a single formal national army; introduction of formal, clear and progressive taxation system and monetization of taxation, formulation of standardized school curriculum, promotion of science and technology education, introduction of written national constitution and declaration of religious freedom.

[12] Paulos states in the preface that he had to put together and copy the scattered manuscript by himself and obtain the permission of then Crown Regent Teferi Mekonnen (later crowned as Emperor Haileselassie) to publish it.

[13] The second edition was published in 1960. A reprint of this edition came out in 2007, but Addis Ababa University Press published an annotated and re-edited version in 2009 (2002 Ethiopian Calendar) as *Works of GHB*, where his two books were combined. Unless and otherwise specifically mentioned, all references to this work in this paper refer to the 2007 reprint of the 1960 edition. Translations from Amharic to English are our own.

living and welfare (ibid., 11–12). The book was annotated, introduced and translated into English by Tenkir Bonger in 1995 (Gebrahiwot, 1995).

According to Salvadore (2007), GHB's contribution to the descriptive and normative understanding of Ethiopian modernity has been investigated by many of the most respected scholars of Ethiopia and thus, he enjoyed a degree of interest by scholars of Ethiopia far superior to that reserved to the other intellectuals (ibid., 62–63). Salvadore (2007) states that the first scholars to look at GHB did so from a Marxist standpoint, as his sharp criticism of the Ethiopian nobility and its economic perspective squared well with the Marxist approach and offered substantial evidence for a class-based analysis of Ethiopian history (ibid.). Some writers described his work as Eurocentric for his conception of history 'within the paradigm of European historiography' (Shiferaw, 1994, as cited in Salvadore, 2007, p. 564). Bahru (2002) offered a comprehensive perspective on the Ethiopian *Japanizers*[14]and in particular on GHB, contending that he stands apart from most of the other intellectuals since he was arguing not so much for the adoption of Western ways and modes but for an autochthonous path of development (ibid.). But this did not stop others such as Kebede (2006) from continuing to accuse GHB of a purported Eurocentrism[15] and for seeing Ethiopia through the eyes of the Western anthropologist rather than those of a native scholar (ibid., p. 815). In any case, no one has ever denied the uniqueness of GHB as an Ethiopian intellectual in the sense that, other than him, none of the early proponents of modernization and development in the country produced any significant theoretical or applied works on economic development.[16]

Be that as it may, there has not been any significant scholarship in relation to GHB's core ideas of economic development such as identifying the intellectual lineages of his ideas and theories as well as critical assessment of their validity either in their original or today's context. For instance, Tenkir (Gebrahiwot, 1995) translated and introduced GHB's book but did not attempt to trace the main ideas' origins, inspirations and connection/difference with similar/opposed development theories that preceded GHB's. Similarly, Alemayehu (2002, 2004, 2012) has not gone seriously into analyzing GHB's main ideas and theoretical structures, or tracing their intellectual lineage beyond mentioning that GHB was influenced by the scholarly tradition of the nineteenth-century American/German system of political economy (particularly by Henry C. Carey). Consequently, he underestimates the influence of and similarities of GHB's ideas with those of Carey (and exaggerates the originality of GHB's ideas and his contributions to development economics).[17] De Lorenzi (2015) also erroneously associates GHB with Marxism and Marxian analytical frameworks (ibid., p. 50), and finds resemblance to GHB's core arguments only with 'positions of Mohandas Ghandi and

[14] The term *Japanizers* refers to the strong interest of the early twentieth-century Ethiopian intellectuals in the successes of the Meiji restoration in Japan. The use of the term is itself controversial because the intellectuals offered a wide variety of perspectives and recipes for change, often bearing little resemblance to the reforms of late nineteenth-century Japan (Salvadore, 2007, p. 563).

[15] According to Samir Amin, *Eurocentrism* is a 'culturalist phenomenon in the sense that it assumes the existence of irreducibly distinct cultural invariants that shape the historical paths of different peoples. Eurocentrism is therefore anti-universalist [because Europe *is* different…] but it presents itself as universalist, for it claims that imitation of the Western model by all people is the only solution to the challenges of our time' (Amin, 1989, p. vii; as cited in Salvadore, 2007, p. 561).

[16] See Bahru (2002) for a comprehensive discussion of all the major reformist intellectuals of early twentieth-century Ethiopia.

[17] See for example Alemayehu (2012) (which unfortunately is available only in Amharic) for details on this.

Romesh Chonder Dutt, who similarly sought to understand the impoverishing impact of unequal exchange in South Asia' (ibid., pp. 50–51) but not with economists of the nineteenth century who propounded similar ideas or the 'high-development theorists' of the mid-twentieth century. We also find misrepresentations of some of GHB's key ideas in the otherwise excellent exposition of his work by Girma (2012),[18] for instance, with respect to sources of finance for industrialization and economic development. Specifically, while, as we shall see later, GHB and other economists of his intellectual linage (including some influential mid-twentieth-century development economists such as Ragnar Nurkse) believed that development should largely be financed through domestic resources, Girma (2012) states that, in GHB's development program, modernization of Ethiopia is to be achieved through external financing (ibid., p. 72). Failure to fully understand the holistic nature of GHB's work, and particularly his emphasis on the need for implementation of the various aspects of his modernization program *simultaneously*, also appears to have led commentators on his work to overemphasize the weight he put on education. (See e.g. Mohammed [2012, p. 75]; Kebede [1999, p. 285] and Beletu and Bureau [1993, p. vii] as cited in Girma (2012).)

3. Governance, institutions and political economy conducive for economic development

In *Menelik and Ethiopia*, GHB makes an interesting note regarding one feature of state *vis*. economic development: in a developed society, the state is a sort of voluntary association of citizens where their leader's authority is constitutionally and legally limited and where change of leadership or death of a leader does not significantly affect the existence and continuity of the state (ibid., p. 10). He contrasts this with the situation of the then Ethiopia, where the king/emperor is the state/government and any change of leadership threatened the very existence of the country as a polity—because constitutional and legal frameworks and well-functioning bureaucratic public administration did not exist (ibid.).[19] Thus, for him, existence of a stable and constitutionally governed state that has a meritocratic public administration is a necessity for economic development and modernization. Beyond this, his position regarding the form of government appears to be that of a 'benevolent dictatorship'. He begins the book *Government and Public Administration* by quoting an author named Estier-Somlo[20] arguing that the wealth, stability and strength of a state is intimately linked with the welfare and prosperity of the general population, i.e. the *right* of the leader to rule is tied to his/her *responsibility* to deliver widespread prosperity and development. For him, economic development requires a synergistic and mutually supportive/reinforcing relationship between the state and its citizens where human development plays a key role (p. 13).

[18] The author is indebted to the anonymous referees for bringing to his attention the works of Mohammed Girma and James de Lorenzi.

[19] GHB was well placed to observe how the sickness of Emperor Menelik and his subsequent death created intense power struggles among the nobility and threatened the stability and continuity of the then Ethiopia. The power struggles and uncertainty were abated several years later only after Ras [Duke] Tafari Mekonnen came out as the dominant figure in Ethiopian politics and eventually assumed the throne as Haile Selassie I.

[20] Most likely Fritz Stier-Somlo (1873–1932), who was an Austria-Hungarian-German legal scholar and political scientist who served from 1925 to 1926 as rector of the University of Cologne. He studied law, economic and philosophy in Berlin University, but it is very unlikely that GHB studied with him or under him, as Stier-Somlo obtained his PhD in 1896—well before GHB may have joined the university.

The enlightened self-interest of the state and rulers necessitates ensuring equitable and wide-spread economic growth and development since '[a] poor person who lacks food and clothing will have no reason to love his country; and so, will not care whether the state of the nation becomes strong or is devastated' (p. 119).This view of the state puts him in agreement particularly with the views of Cameralist[21] authors such as Veit Ludwig von Seckendorff (1626–92) and nineteenth-century German Historical School writers such as Wilhelm Rocher.[22] His view is also similar to that of Friedrich List, for whom nationality without prosperity is meaningless (List, [1841] 1909, p, 341).[23] It is to be noted that Cameralism was the dominant school of economics and political writers in Europe in the seventeenth and eighteenth centuries, where writers aimed at convincing the princes, kings and rulers that their *right to rule* a state also entails a *duty to develop* the state (Reinert, 2005). Thus, the 'enlightened ruler' is to be in charge of this 'developmental dictatorship'; and the job taken up by the Cameralists was to advise, assist, guide, correct, flatter and cajole the rulers into doing their jobs properly (ibid.).[24] In any case, though GHB's ideas in these area show similarity to those of the two schools of thought, there is no evidence that he was directly influenced by the main protagonists in that intellectual linage; however, it is reasonable to think that their influence on his thinking might be through Estier-Somlo, whom he mentions in the book.

The second interesting feature of GHB's theoretical structure is related to context-specificity of institutions and policies. Unlike the currently dominant development discourse where it is contended that policies and institutions that are good for development are fairly constant and context free, GHB repeatedly argues that appropriate policies, institutions and strategies differ across time and context of a society, and that there is no optimal set of policies and institutions that apply to all contexts (e.g. pp. 15, 78, 124). Moreover, he argues that wholesale copying and importation of 'best practice' policies and institutions from developed countries could be counterproductive and a waste of resources since the most appropriate policies and institutions can only be developed from within the country itself based on its specific needs and developmental contexts (pp. 124–25). Overall, his views concerning institutions and policies are close to those of the best of the mercantilists and Cameralist traditions of Europe which understood that economic institutions co-evolve with the mode and structure of production, where institution-building was fundamentally seen as a *demand-pull* phenomenon, and where *the mode of production of a society* is thought to determine its

[21] According to Reinert (2005), the term *Cameralism* itself originates in the *camera principis*, or *Kammer*, i.e. treasury; and the perspective of the Cameralists was that of public management, of taxes and institutions, laws and regulations.

[22] See Reinert (2005) for details on the views of these authors on this topic.

[23] Similar views are found in the works of Renaissance economists of Naples such as Antonio Genovesi (1713–1769), who argued that national independence was as meaningless as it was fleeting without the economic power, and more specifically the industrial and thus military power, to guard it from foreign interests. See Sophos Reinert (2011) for an excellent discussion of these and other ideas within this tradition.

[24] As indicated in the previous section, just like the Cameralists, GHB's main objective in writing both books is to 'enlighten', advise and guide the rulers of Ethiopia with respect to development policies. According to Reinert (2005), the origin of this idea dates back to the thirteenth-century idea of a common good—originating in Italian humanism—which was slowly transformed into an idea of public happiness, and the ruler is put in charge of the project; Wilhelm Roscher (1868) coined the descriptive term 'enlightened despotism' for this kind of rule (Reinert (2005: 54)).

institutions (Reinert, 2007).[25] Nevertheless, it is impossible to identify any direct or indirect influences of mercantilist, Cameralist and German Historical School authors on GHB's views on this particular topic, as he does not make any specific reference.

Another key feature of GHB's thinking is his emphasis on fair, equitable and just distribution of wealth, income and opportunities across various sections of the society. Given the fact that Ethiopia (the object of his developmental ideas) was and is a multi-ethnic and very diverse society, he argues that fair and equal treatment of all ethnic groups within a state is not a matter of benevolence but a necessity for long-term survival (p. 14). His emphasis on fair and wide distribution of benefits and wealth also extends to land as well as wealth and economic opportunities in general (pp. 54, 88, 119–20). Furthermore, he is against wealth concentration because it undermines feelings of unity and nationalism in a nation which, for him, are essential ingredients of national development and industrialization (p. 119). Overall, in this respect as well, his views are similar and possibly influenced by authors in the tradition of German Historical School, such as Gustav Schmoller,[26] who played a critical role in envisioning and laying the foundations for the modern welfare state in Europe; however, the contexts of their recommendations are very different.[27]

Before moving into the core of GHB's development ideas, we would like to note the emphasis he put on the importance of peace and stability for development (pp. 34, 41, 42). While discussing the destructive conflict cycles in the history of Ethiopia, he emphasizes that war and conflict are possibly the biggest obstacles for development, and that poverty and inequality maintain a vicious cycle of underdevelopment. Recently, this nexus between poverty and conflict has been publicized, among others, by Collier (2007), who argues that 'civil war is much more likely to break out in low-income countries: halve the starting income of the country and you double the risk of civil war' (ibid., p. 19). However, in contrast to Collier (2007), who goes on to recommend fostering of competition to break this vicious cycle of conflict and poverty (ibid., p. 160), GHB recommends *changing the structure of the economy through industrialization* because, according to him, synergistic development of increasing returns activities in an agglomerated manner with extensive division of labor and specialization leads to increased social harmony, more trust, less conflict and more cooperative behavior (p. 84). This is similar to the views put forward recently by Reinert *et al.* (2011), who argue that absence of an increasing returns sectors in an economy creates zero-sum-game societies of static rent-seeking, which makes such nations prime candidates for developing into failing, failed and fragile (FFF) states (ibid., p. 5). Thus, the root causes of poverty and underdevelopment lie in a certain type of economic structure

[25] Reinert (2007) reports that in 1620, Francis Bacon formulated a view that was to dominate in the social sciences for almost the next two centuries: 'There is a startling difference between the life of men in the most civilized province of Europe, and in the wildest and most barbarous districts of New India. This difference comes not from the soil, not from climate, not from race, but from *the arts*'. Reinert (2000: 371) further argues that, when German economist Johan Jacob Meyen stated in 1770 that 'It is known that a primitive people does not improve its customs and institutions, later to find useful industries, but the other way around', he expressed an understanding of causality considered common sense at the time. See particularly Reinert (2007) for detailed examples on this point.

[26] See, for example, Backhaus (2011) on Schmoller's influence on today's German Social Market Economy (Soziale Marktwirtschaft) (ibid., p. 391).

[27] The time when GHB was writing was such that poverty and inequality was rampant in Ethiopia—with a very heavy burden of taxation and operation under a brutal feudalist aristocracy. In contrast, the social question in Europe of, say, Schmoller's time was essentially that of advanced capitalism.

which fails to produce the virtuous circles of economic growth that requires increasing returns and sufficient diversity and diffusion of economic activities in order to become self-sustainable (ibid., p. 4).

4. The nature, causes and mechanics of late development and industrialization

In most of the mainstream academic and policy literature, it is argued that some countries and societies have a much better chance of economic development. However, there is no agreement as to what factors play a more important role. For instance, Bloom and Sachs (1998) suggest that 60 to 90% of Africa's slow growth is attributable to geography and demography—tropical climate and a tropical disease burden, hostile and unfertile soil quality, a high youth dependency ratio, a semi-arid climate with rainfall subject to long cycles and unpredictable failure, etc. Similarly, Diamond (1999) argues that both geography and the environment played major roles in determining the shape of the modern world (ibid., p. 405). Meanwhile, Acemoglu (2001) and Acemoglu *et al.* (2002) argue that the most important factor is the presence or absence of 'appropriate' institutions because, according to them, after accounting for institutional differences, geographic variables have little influence on incomes today (ibid). Yet for others, it is about policies. For instance, Collier (1998) argues that it is quite difficult to achieve structural transformation in Africa since long-lasting and hard-to-reverse effects of poor policies (e.g. trade barriers, transport costs, power costs, transaction costs, information costs, and high risk) make it quite infeasible (ibid., pp. 280–81). Therefore, he suggests, 'For the present Africa must live with dependence upon primary commodities, and for parts of Africa this is the only likely future' (Collier, 2002, p. 28).

Contrary to these views, GHB argues that the key ingredients of economic development are not geography, climate or environment; and as discussed above, even institutions are not causes of wealth and prosperity *per se* as they co-evolve with the economic structure. For him, 'All people have the potential to develop. This [their fate] solely depends on themselves' (p. 11). This conviction is derived from the fact that, for him, all the key ingredients of economic development are artificial: 'When man was created, he was endowed with a great mind; over time, he became master over the earth by accumulating knowledge on this great mind' (p. 16). Thus, man's key to development lies in creation, accumulation and use of knowledge, technology and skills (pp. 42, 53, and 61). Therefore, any society has the potential to achieve economic development, continually improving its living standards with evermore ease through innovation, skill development, technical change and accumulation of knowledge (pp. 24, 51, and 61).

Explicitly acknowledging 'an American scholar named Carey' (whose influence on GHB will discussed below) as the source of his ideas, GHB elaborates how accumulation of knowledge and innovation is a circular and cumulative process whereby a generation benefits from and builds upon the knowledge and technical innovation accumulated by its predecessors (pp. 24–25). In addition, innovation and technical change motivate and facilitate further innovation and technical change in a society (p. 29). Increase in productivity due to innovation and technical change leads to an increase in population, which in turn facilitates further division of labor; and this is a mutually reinforcing, continuous process (pp. 26–29). This virtuous cycle facilitates economies of agglomeration and development of public infrastructure, all leading to

continuous improvement of living standards.[28] With simple but clear examples, he emphasizes the importance of virtuous cycles of discovery, innovation and technical change, leading to increases in productivity, further technical change and decline in the costs of production (p. 50). Later on, he states, 'It is not difficult to reproduce an item once the first copy is produced…For this reason, once an activity is accomplished, it makes the next step easier' (p. 58). This is of course the well-known case of increasing returns-to-scale.[29]

In his theoretical system, value and price are also largely determined by the artificial factors of knowledge, skill and technical change in such a way that 'as knowledge increases, the price of all things that are needed for living declines since the effort required and obstacles to be surmounted to obtain these things declines' (p. 45). Furthermore, as determinants of economic development, knowledge and technical change take precedence over natural resource abundance since natural resources become valuable only when knowledge and technical progress creates uses for them: 'Today, thousands of ships across the world are fueled by coal. The coal had always been available in England. It only began to be [considered as] wealth [a useful resource] to the English after the locomotive train was invented and it was discovered that coal was useful for [fueling] the locomotive. Prior to that, there was as such no one who considered coal as valuable' (p. 56).

For him, investments in human development not only create virtuous cycles of development but are also critical to develop the national capability to maintain the momentum of development; and '[t]herefore, if a government educates and trains workers in its territory and brings them closer [e.g. through development of transport infrastructure], if it motivates them to be industrious, if it exerts efforts to maintain their health and wellbeing, and if it spends money [to these ends], the returns would be equivalent to that of putting the money in a bank that not only maintains the principal but credits interest daily, monthly and annually' (pp. 60–61). In effect, according to GHB, true national wealth is attained not through accumulation of capital or money but through the acquisition and maintenance of the capability to produce (productive capability) (p. 57–58). Moreover, 'The cause of increases or decreases in the amount of gold and silver [hard currencies, in today's context] that flows into a state is just one and is clearly known' (p. 111); it is economic diversification into skill and knowledge based, increasing returns-to-scale activities that ensure very large division of labor within a single macroeconomy (pp. 112–13; p. 128).

[28] He also argues that development of infrastructure, technical knowledge and skill in a society leads to reduction in costs of production (and prices), improvement in living standards, increase in the profit of producers, decrease in the profit that accrues to middlemen and merchants and increase in division of labor (pp. 49–50). See also pp. 59–60 on how development tends to create positive and cumulative *inertia* to achieve more development. See pp. 61–63 and p. 129 on the positive relationship between specialization, division of labor, innovation and technical change; see pp. 65–67 and p. 78 on his emphasis on economies of agglomeration and reducing the costs of transaction and transportation.

[29] According to Reinert (2009), increasing returns-to-scale means that, as the volume of production increases, fixed costs per unit of production fall. Importantly, increasing returns invalidate the core assumption of standard economics: perfect competition (ibid., p. 17). The higher the increasing returns, the larger will be the barriers to entry and the more imperfect the competition. Presence of increasing returns tends to lead to higher wages, which in turn increase the relative price of labor, which in turn makes mechanization increasingly profitable. This spiral of increasing wages (i.e. increasing demand) and increasing productivity due to mechanization is at the core of the impressive growth of developed economies since the 1850s (ibid.).

Also, synergistic development of increasing returns and constant/decreasing returns-to-scale activities side-by-side within a single macroeconomy plays a key role in addressing the development challenge in a late-developing economy. Thus, 'If we pay close attention to the situation in our country, the chief reason why land ownership is becoming more and more concentrated, the peasants are abandoning their agriculture and idly following officials/aristocrats like dogs, and the benefit of the government is declining is the fact that the market from which the farmer buys all that he needs is located in a far-off foreign country' (p. 84). The remedy to this problem lies in co-location and co-development of industry and agriculture—and this is good for both sectors (pp. 87–88).[30] Thus, his advocacy for industrialization (i.e. focus on development of increasing returns sectors) does not preclude development of the agriculture and other primary sectors. Rather, his view is that agriculture cannot be modernized and made more productive except simultaneously with industry (p. 92). In addition, he argues that development of agriculture *presupposes* cheap modern inputs and reliable and close-by market (p. 96).[31]

Another important issue stressed by GHB is the absolute necessity of making *synergistic and simultaneous* investment in human development, infrastructure, economic diversification (both increasing returns and constant/decreasing returns activities) and financial sector development. With respect to the need to develop physical infrastructure and educating and skilling of the population simultaneously, he argues:

> Roads and railways are highly beneficial if one is able to quickly understand [their true value]. It is important to immediately set up schools and training facilities that provide training on various professions and skills. And when the population is educated and skilled, it produces whatever it needs by itself. Division of labor would be very extensive and the producers will be located close to each other...Therefore the producers/workers will have more time to engage themselves in their profession. As a result, they will conduct research and discover new production techniques and products. They will make more profit out of the increased profit. Over time, the wealth of the people and power of the government will grow continually as wealth is one form of power. But roads and railways without knowledge and skill [among the population] impoverish the nation and are not useful. Therefore, a government that is interested in the benefit of its people should not separate these two things [educating the workforce and development of infrastructure]; it shall strive to undertake them simultaneously. (p. 76)

The risks posed by heavy investment in transport and communications infrastructure without equivalent investment in education, economic diversification and domestic market expansion are related to development of taste for foreign products and exacerbation of the problems of 'unequal exchange', as this promotes imports of higher valued products in exchange for low value primary exports (p. 75) (to be discussed in detail below). For him, the financing required to industrialize a late-developing economy has to be raised almost exclusively from domestic sources through creation of economic surplus, domestic savings and channeling of savings into productive investments (p. 65). Another key element in his development theory relates to the need for

[30] Later 'high development theorists', particularly Ragnar Nurkse make similar point in his 'balanced growth' approach. See Kattel, Kregel and Reinert (2009) on this.

[31] According to Reinert (2009), the importance of the linkages and synergies for agricultural development, i.e. the benefits that accrue to agriculture from the proximity of manufacturing, was perhaps the most important new insight in economics during the early 1700s; for instance, David Hume in his *History of England* (1767, vol. 3) states: 'Husbandry … is never more effectually encouraged than by the increase of manufactures' (Reinert, 2009, p. 17).

development of a national financial sector *simultaneously and synergistically* with the other key elements (human development, physical infrastructure, deliberate/interventionist promotion of increasing returns activities, etc.) (pp. 125–26). This is because the development and expansion of financial institutions and financial services become useful only in a context where savings are channeled into productive investments in increasing-returns sectors; otherwise, these will only promote consumerism and increased demand for imports—further exacerbating the problems of chronic trade deficits (pp. 136–37, 139). Overall, he compares promotion of railways and banking in Ethiopia of his time with 'digging the grave of the people' unless done simultaneously with a comprehensive programme of industrialization and human resource development (pp. 127–28).

To put GHB's key ideas into context, it would be important first to consider the intellectual influences on his work. As his major book was not finalized when he passed away, there are only two references in the whole book: Estier-Somlo and 'an American scholar named Carey'. After some effort, we were able to confirm that, of the two influential American economists of the nineteenth century with that name (Matthew and Henry Carey, father and son), many of the key ideas propounded by GHB actually show unmistakable resemblance to the ideas in Henry Charles Carey's book *Principles of Social Sciences in Three Volumes, Vol. I* (1888). In fact, many of the passages in GHB's book appear to be shorter and contextualized versions of passages in Carey (1888).[32]

For instance, while GHB borrows the idea of labor theory of value from Carey (1888), he refines it by specifically stating that what creates value is not just labor but the quality of labor and the technology used by labor—i.e. the knowledge, skill and know-how applied by and embodied in the labor and enhanced by technology. One could also say the same thing with respect to other key ideas of GHB, such as ideas related to increasing returns, circular and cumulative causation, importance of diversity of professions and division of labor, economies of agglomeration and co-development of manufacturing industry and primary production within a single economy, unfairness of international trade between technologically 'unequal partners' (to be taken up in the next section), etc. In all cases, it could be said that GHB absorbed and refined the core ideas of Carey and left those that are not relevant to his readers, contextualized them and presented them in very clear and concise manner.[33]

[32] It is worth nothing here that Carey's work is voluminous: 'His voluminous writings aggregated, according to his literary executor, thirteen octavo volumes, about three thousand pages of published tracts, and perhaps an equal quantity of newspaper articles, editorials and correspondence dealing with economic and political subjects' (Kaplan, 1931, p. 13). Just the first volume of Carey's magnum opus, *The Principles of Social Science* (which he completed as a three-volume work in 1860 [ibid., p. 54]), is 474 pages.

[33] Carey was not only an economist but, like his father Matthew, an agitator and zealous promoter of the ideas of what was referred to as the American System. Kaplan (1931) describes him as the "devoted champion of diversified industry and an adequate home market, matching the zeal of his father before him. In newspaper, magazine, pamphlet and book, he hammered away (with 'unwearying wearisomeness', according to Professor Roscher) at the theme that national prosperity consists in 'placing the consumer by the side of the producer' so that 'with every step in this course he will obtain increased returns from a diminished surface" (ibid., p. 54). Meanwhile, GHB distills Carey's main ideas that are relevant to the Ethiopian context while avoiding the irrelevant polemics and arguments against the classical school of economic thought that litter Carey's work. In short, while GHB's work can be noted for brevity and conciseness, Carey's is verbose and long. This is partly due to Carey's ambition of not only disproving the major tenets of the then dominant classical economics but also because, 'bent on the creation of a system of universal harmonies, Carey trespasses over the grounds of natural history and natural science so that he may demonstrate the close relationship between the order of nature and the affairs of mankind' (Kaplan, 1931, p. 54).

Other major authors who preceded GHB and whose ideas bear close resemblance to his include Antonio Serra (1613) and Friedrich List (1841). According to Reinert and Reinert (2003), Antonio Serra coherently presented the kernel of development economics in his 1613 short book *Breve trattato*, including some of its key elements such as increasing returns, cumulative and circular causation and synergies (ibid.). For him, the most important causes of 'the wealth of nations' are *'the quantity of industry'*, '*the quality of the population*', '*the extension of trading operations*', and '*the regulations of the sovereign*' (ibid., pp. 16–17), which work dynamically and in synergetic conjunction (ibid., pp. 20–21). Thus, one could see that some of GHB's ideas are similar to those of Serra, who wrote about three centuries before him, but there is no evidence that GHB was directly influenced by Serra's work; rather, it is possible only to speculate that the influence might have come indirectly through Carey (1888).

One also finds many ideas similar to those of GHB in Friedrich List's magnum opus *The National System of Political Economy*, which was published in 1841 (English translation, 1909). Therein one finds excellent description of the main causes of development (ibid., p. 87); the process of late development and industrialization (ibid., p. 32); importance of proximity of manufacturing industry and agriculture (ibid., p. 83); the co-evolution and circular causality of institutions, economic structure and culture (ibid., p. 40); social, institutional and political nature of production and economic development (ibid., p. 87); emphasis on productive capability (rather than on static forms of wealth); etc., all of which are quite similar to the ideas of GHB. However, unlike the case of Carey (1888), there is no direct internal evidence showing that List was a major influence on GHB. Since List was closely associated with Carey's family,[34] we can speculate that List's influence on GHB might have been through Carey, who propounded ideas that are similar to those of List.

Be that as it may, even if GHB may have read List's work (since he lived and studied in Germany), their views widely diverge with respect to one key issue: while List recommends specialization in primary production for 'tropical', 'torrid' nations' (e.g. List, [1841] 1909, p. 312), GHB is of the view that industrialization is the *only* path to prosperity for *all* nations.[35] Furthermore, though GHB and List agree on their policy recommendations, unlike GHB, List's theoretical expositions and justifications of his proposals are somewhere lacking. In fact, as Reinert and Daastol (2007) rightly observe, 'No doubt his observations were accurate, but his theoretical concepts are vague and his explanations of the economic mechanisms at work are imprecise' (ibid., p. 32).

[34] List was the protégé of Carey's father, Matthew Carey, who was the publisher and promoter of List's ideas in America.

[35] List argues that Britain's proposals to open German market for manufactured goods in return for its removal of barriers to German export of timber and agricultural produce amount to trying to make Germany an agricultural colony of Britain (ibid., p. 323). However, a few pages later (pp. 336–37) he recommends Asia and other 'inferior' civilizations to be suppliers of raw materials and markets for European manufactures. Later on, he outlines how Germany should colonize less developed countries, in order to make them sources of raw materials and markets for German manufactures (pp. 347–49). On the other hand, Carey avoids the hypocrisy of writers like Smith and List in terms of recommending the underdeveloped nations to specialize in raw materials and avoid trying to industrialize. In fact, he strongly criticizes America's policy of pushing the Republic of Mexico and native American Indians towards primitive economic activities and raw material production as short-sighted and narrow-minded (Carey, 1888 p. 372; see also pp. 360 and 367 on how forced specialization due to British colonial policy left 'vast heaps of humanity, festering in compulsory idleness', leading to 'barbarism, leading to famines and pestilences, ending in decay and death, and thus giving color to the theory of over-population').

Overall, it is clear from his book that GHB had access to and was well acquainted with the then-major contending theoretical frameworks and intellectual debates related to economic development (e.g. p. 78). In addition, his book indicates that he was well versed with the economic history and economic policy history of many industrialized and industrializing countries of his time (e.g. p. 79). Therefore, his choice of the work of Carey as the foundation of his own work was not due to ignorance of alternative intellectual traditions but was intentional and deliberate.

5. Nature and causes of 'unequal exchange' in international trade

As discussed above, for GHB, what determines the value of products and level of welfare in a society are levels of skill, knowledge, technological and innovation capability. Therefore, any trade, be it domestic or international, is ruled by this same law of value. Consequently, if trade/exchange is to be mutually beneficial, both sides to the transaction should operate under the same level of technology, skill and knowledge; otherwise, the result would be harmful to the nation with lesser knowledge and technological capability:

> At present day Ethiopia, it is not possible to manufacture bottles, glass, kettle, dishes and table ware. All these are produced in Europe with considerable ease and no great effort. But our countrymen exchange these [items] with things for which they have exerted lots of effort… Therefore, he [an Ethiopian peasant] exchanges products which have required him several days of labor to produce with something [like] abujadi [a type of textile] that was produced in an instant…because he does not possess the knowledge/skill required to produce the cloth…Is this not the case even within our country where the labor of the carpenter is valued more than that of someone who supplies to him wood?.....Thus, when we say that value is determined by amount of labor, knowledge and skill of the producers that exchange their output have to be equivalent. This means that, when a producer of cloth exchanges his products that are made using machines with a farmer, the farmer is harmed [by the exchange] while the producer of cloth benefits, unless he also produces with machines. When the farmer produces with machine [but if the cloth maker does not], then the cloth maker is harmed but the farmer benefits. This is the reason why peoples [nations] that have superior knowledge have advantage in [international trade] over those that are inferior in knowledge. (pp. 52–53)
>
> Thus, as the goldsmith buys the labor of the one who makes his fire and the carpenter buys the labor of the log carrier at cheap prices, likewise, people with knowledge [skill and technology] buy the labor of peoples that lack knowledge [skill and technology] at cheap prices...That knowledge rules the world is an unshakable eternal law. (p. 53)
>
> Producers of various products could make fair exchanges of outputs of their labor when the knowledge and skill required for their respective products are balanced. If the required knowledge and skills are not balanced, the value of their exchanges cannot be balanced. Therefore, when peoples [nations] that lack knowledge/skill exchange their products with peoples [nations] with advanced knowledge/skill, the level of harm suffered by the peoples lacking knowledge is great. (p. 67)

As shown by the above quotes, for GHB, the root causes of the 'unequal exchange' in international trade between producers of primary commodities and producers of manufactured products are the knowledge, skill and technology embodied and employed in the products and the production process. Furthermore, he also argues that processing raw materials and primary commodities domestically not only saves a country from the harms of 'unequal exchange'[36] but also creates employment opportunities for the

[36] He corroborates this phenomenon of 'unequal exchange' with the export import export data of the then Ethiopia, comparing the quantity and value of raw materials and other primary commodities Ethiopia exported and the quantity and value of finished products imported from abroad (pp. 67–68). He also shows that, in general, any trade between raw materials and finished products creates unequal exchange in favor of the later (p. 114).

domestic workforce as well as for improving the skill levels of the workforce (p. 68). It will also help eliminate the cost of transportation and the profit that goes to importers, exporters and other middlemen in international trade. Conversely, continuation of the *status quo* of 'unequal exchange' exacerbates poverty in the primary commodity-exporting nation.

In addition, a country exporting raw materials and primary commodities while importing manufactured products is bound to suffer persistent trade deficits, which are generally financed through foreign borrowing.[37] As he was writing at a time when development aid was unknown, it does not figure at all in his analysis. Moreover, unlike recent times when most mainstream development policy literature sings the virtues of foreign direct investment (FDI), GHB considers this source of external finance as being equivalent to prohibitively expensive loans. This is because, by definition, foreign investors bring capital into a less developed economy to make substantial profits which they will eventually repatriate into their home countries (p. 73). The following is a perceptive description of the essence of FDI that goes into primary commodity production in developing countries (thereby re-enforcing and locking them into the developmental 'dead-ends' of specializing in primary commodities), and is also a warning about the risks of taking the route of low wages ('cheap labor') that has been recommended to poor developing countries by the mainstream literature:

> Even if they do not explicitly say it like this, it seems that foreigners who come to Ethiopia [with capital] would say to the Ethiopian people as follows: the reason why we have come to Ethiopia is to take the wealth of your country. However, since the land is yours, you will not let us work on it and take what is in it. [But] if you let us [do this], we will not bring workers from our country as the cost of labor would be high. As the wages of your labor are extremely low, let you, yourself do the work and give us [the output]; we shall pay you a small amount of money for your exertions. But, with this small amount of money we pay you, do not buy the equipment and machinery that is required to manufacture the clothing and other items that you need for your consumption; and never produce them by yourself. From now on, do not manufacture *shema* (cotton garment produced by Ethiopian traditional textile industry), swords and all the things that have been locally produced. Buy everything from us. Return to us the money we have given you immediately with a large amount of interest. (p. 74)

In general, the pessimistic views of GHB regarding FDI and the need for mobilizing domestic resources for economic development were similar to those propounded by Ragnar Nurkse, one of the leading development economists of the 1950s and 1960s. Specifically, Ragnar Nurkse (1961, p. 141; as cited in Kattel *et al.*, 2009) presents arguments that are similar to those of GHB in the sense that development has to be mainly financed from domestic sources. In fact, Nurkse's position against attempts to finance development from foreign sources such as FDI mirror those of GHB as, according to Nurkse, trade and foreign investment would engender a number of obstacles to development: namely, first, large parts of such financing would seek to utilize poor countries' resources and eventually lock these countries into undiversified economies with a skewed social structure; and second, there is a clear danger that significant amounts

[37] Using the relatively modest trade deficit encountered by Ethiopia in 1911–12 (Ethiopian Birr 191,950.00), he argues that somehow this deficit was financed through some form of borrowing, and goes on to argue that a nation that imports for consumption beyond what its exports earn will have to pay for this deficit, not just the principal but also the interest (p. 73).

of foreign financing would end up funding private consumption patterns emulating Western living standards and thus creating balance-of-payments problems (ibid., 12). In a similar vein, based on empirical evidence of the twentieth century, Kregel (2004) argues that indeed there have been persistent negative financial flows into developing countries, and that development initiatives dependent on external financing have generally been inextricably linked to the problems of unsustainable debt creation and debt burdens, sharp reversal of external flows and increasing prevalence of financial crises in countries that had experienced periods of positive external capital inflows.

Returning back to GHB, using the case of the then Ethiopia, where cheap imports of low-quality textiles and garments from Europe wiped out domestic production of better-quality equivalents, he goes on to show how foreign competition destroys existing 'uncompetitive' and less efficient industries (without replacing them with more efficient ones) (pp. 79–81). His examples also show that he was well aware of how development of taste for imported conspicuous luxury consumption items could not only pose risks to domestic manufacturing industry but also would put added pressure on the economy to export more and more primary products (which was already under pressure to cover the unavoidable trade deficits due to the 'unequal exchange') in order to cover the ever-increasing costs of imports (pp. 74–75).

To put this portion of GHB's work in context, like the case of the previous section, it is easy to see that GHB's ideas resemble those of Carey (1888), and probably for the same reasons. However, even though in both cases the key ideas related to 'unequal exchange' are directly derived from (or implied by) the underlying theories of key domestic causes and mechanics of development, GHB's ideas show marked clarity and refinement compared to those of Carey (1888). For instance, unlike GHB, Carey (1888) does not specifically and explicitly ascribe 'unequal exchange' to differences in knowledge, skill, technology, returns to scale and agglomeration, though their conclusion is very similar.

6. Strategies for late development and industrialization

The main purpose of GHB's book was to show the people and then state of Ethiopia the sure ways and means of achieving development and real and meaningful political and economic independence as a nation. As such, all his theoretical discussions point to distinct policy directions. For instance, it was already alluded in previous sections that his approach leads to focusing on deliberate and comprehensive set of state-directed, synergistic interventions in the areas of infrastructure development, human development and education, promotion of technology adoption and innovation, internal market expansion, suppression of consumption of imported products, financial sector development and import protection—all aimed at industrialization and structural transformation. In addition to such general policy statements scattered throughout the book, his book also contains a section that outlines a comprehensive set of policies—with particular emphasis on selective and dynamic protective tariff schemes aimed specifically at promoting import substitution industrialization (pp. 81, 84). This includes:

- Erecting sufficient barriers on import of finished products, where tariff protection is not meant for revenue but for the purpose of creating and sustaining national productive capability (pp. 103, 126);

- Removing tariffs and other barriers to import of machinery and raw materials; discriminating against imports that can be produced with machinery and equipment that is allowed to be imported duty free; providing incentives to domestic producers of raw materials and agricultural outputs;
- Encouraging and supporting FDI in the area of manufacturing and import substituting industries; encouraging FDI and immigration of skilled foreigners with an explicit objective of knowledge, technology and skill transfer—as well as creation of industrial and skilled employment (pp. 97–98);
- Promoting export of finished products (p. 97); discouraging export of raw materials (p. 99)—particularly discouraging export of primary commodities that are based on non-renewable resources (p. 118);
- Ensuring that export earnings from raw materials and primary commodities are used to import advanced technology but not for consumer products (p. 114).

Overall, his stress is on the creation of a diversified economy based on knowledge- and skill-based increasing returns activities (pp. 112–113), which is to be achieved through a dynamic and context-specific combination of import protection/substitution and export promotion strategies, which are to be supplemented and complemented by its three 'inseparable colleagues' (pp. 97–98): foundation and expansion of education and training institutions; construction of physical infrastructure; and promotion of technology and skill transfer-oriented inward FDI and skilled immigration. Moreover, his proposals for import substitution/protection with dynamic policy interventions are explicitly aimed at creating synergistic and side-by-side development of agriculture and industry, thereby creating a virtuous cycle of prosperity (pp. 85–87).

Looking at the contents of the industrialization policies proposed by GHB, it is easy to see their similarity with most of the policy proposals made by Friedrich List (1841). Similar but cruder sets of policy proposals were made or implemented among others by Jean-Baptiste Colbert, Louis XIV's General Controller of Finances (France);[38] and going even further back, we find many similar policy ideas in Hörnigk's 'Nine Points of Economic Policy', which were proposed in 1684 and implemented in Austria with great success.[39] They also bear resemblance to the logic, content and objectives of the famed 'American System' that was forcefully and ingeniously sketched for the first time in 1791 by Alexander Hamilton, the first Secretary of the Treasure of the USA, in his famous *Report on Manufactures*.

The long-term impact of the ideas proposed in the *Report* is such that one author states, '[it] contained the embryo of modern America: here, if a date can be assigned to a development so amorphous and far-reaching in its consequences, was conceived the grand design by which the United States became the greatest industrial power in the world' (Greenfeld, 2001, p. 393). The resemblance is not surprising, as one of the aggressive and relentless promoters of the policy proposals of 'the American System' was Henry Carey (who had substantial influence on GHB), as the result of whose

[38] See List ([1841] 1909, pp. 57–58) for a succinct summary of the main elements of Colbert's industrialization program.

[39] Philipp Wilhelm von Hörnigk (1640–1714) published his 'Nine Points of Economic Policy' in 1684 in the book *Österreich über alles, wann es nur will* ('Austria above everyone else, if only she had the will to') (published anonymously), and the book was the most successful German-language economics book of the period (Reinert, 2005; Schumpeter, [1954] 2006, p. 192).

'vigorous preaching', 'it enjoyed wide acclaim around the economically alert world, was regarded with interest in Britain and France, and taken very seriously in Germany and Japan' (ibid., p. 328). In fact, according to Kaplan (1931), Carey's intellectual influence was such that, at the completion of his *Principles of Social Science* (1857–60), 'he had attained not only the fruition of his own thought; he had awakened a European interest in the "American School" and the "American System"' (ibid., p. 9). *Principles of Social Science*, which was the main source for many of GHB's ideas, was very influential during the second half of the nineteenth century and was translated into five European languages and Japanese (ibid.). Moreover, in Germany, where GHB also spent his formative years and must have witnessed the achievements firsthand, List's proposals, which were very similar to his own and those of Carey, were successfully implemented particularly under Bismarck (Reinert, 2004, p. 32; see also Chang, 2002).

In addition, Erasmus Peshine Smith, one of the most influential economists of the American School and the protégé of Henry Carey, was an economic advisor to the Japanese government following the Meiji restoration.[40] As a result, key figures in the design and implementation of the economic policies following the Meiji restoration in Japan (such as Wakayama Norikazu, Okubo Toshimichi and Fukuzawa) were all followers of Carey's and List's ideas (Greenfeld, 2001, pp. 328–34). And therefore, it is not surprising that GHB's policy proposals resemble those that propelled Japan from a poor feudal society to an industrialized nation. Nor should we be surprised that he advised the then-Ethiopian government to learn from and emulate Japan. Later on, while somewhat modified by the experiences of the Second World War and indeed the aftermath of the war, these ideas again played a major part in influencing Japanese development from the 1960s (Reinert and Daastol, 2004, p. 33, Reinert, 1994: 174-175). Since Taiwan, South Korea and Singapore were greatly influenced by the Japanese model of industrialization, their spectacularly successful industrialization policies also greatly resembled those of Japan.[41]

Thus, when GHB's ideas regarding the causes and nature of economic development and the strategies that he proposed for late development and industrialization of the then Ethiopia are put into their proper and wider historical and intellectual context, the characterization of GHB as 'Japanizer' appears too narrow. This is because, whereas *Japanizers* refers to the strong interest of the early twentieth-century Ethiopian intellectuals in the successes of the Meiji restoration in Japan, GHB's suggestion for Ethiopia to learn and adopt the policies and industrialization strategies of the then Japan had much more to do with the fact that Japan was the one place where the strategies and policy ideas implied by his theoretical framework were being applied at the time of his writing. This is like Alice Amsden, one of the leading proponents of GHB's kind of development economics in recent decades, exclaiming '[Raul] Prebisch

[40] According to Reinert (undated), in 1871—four years after the Meiji restoration—the Japanese government requested from the government of the USA an advisor in international law. The Secretary of State recommended Peshine Smith, who was to spend eight years in Japan as the first US citizen to serve the Japanese government in an official capacity. When he left, he proudly commented that the 'American System' of economic theory—as opposed to English theory—had become 'common thinking among Japanese statesmen, government officials and philosophers'.

[41] An excellent source for the Taiwanese case is Wade (1990); for that of Korea, it is Amsden (1989). Chang (2002) provides a comprehensive and well-researched historical narrative for several 'old' and newly industrialized countries.

lives in Asia!'—referring to how leading governments in Asia were actively and effectively promoting import-substitution in high-tech industries during the late twentieth century and early twenty-first century (and therefore proving Prebisch correct about import substitution industrialization) (Amsden, 2004, p. 75). (For a striking similarity between GHB's policy proposals and the policies and industrialization strategies which were being implemented in Japan during the early twentieth century—i.e. around the time GHB was writing his book—see Chang [2002, pp. 47–50].) Therefore, in our view, GHB should not be narrowly considered as a 'Japanizer' but as one of a long line of intellectuals subscribing to and writing in the tradition of what can broadly be called historical, evolutionary and pragmatic economics.[42]

7. GHB's ideas and later theoretical developments: are the core ideas theoretically valid?

Moving forward in the history of economic thought, we could clearly see that the main ideas of List, Carey and GHB underlie much of the kernel of the development economics of the 1940s, 1950s and 1960s when the field was thriving. The group that promoted these ideas, which collectively form what is now called 'classical development economics' or 'pioneers of development', typically consists of the following key thinkers: Paul Rosenstein-Rodan, Hans Singer, Arthur Lewis, Albert Hirschman, Gunnar Myrdal and Ragnar Nurkse (Kattel *et al.*, 2009). Two key ideas of these 'high development theorists' that are particularly similar to those of GHB are that (a) financing for development has to come to a large extent from the developing country itself ('Capital is made at home'; Nurkse 1961, p. 141; as cited in Kattel *et al.*, 2009, p. 12), and the key areas to be financed need to exhibit increasing returns in order to trigger dynamics of development or, as Myrdal argued, virtuous circles of growth (ibid., p. :12).

Unfortunately, however, the key ideas of both groups of economists (List, Carey, GHB, *et al.*, and the 'high development theorists' of the twentieth century) have been ignored and by-passed in the mainstream development literature of recent decades to the extent that Krugman (1995) confidently states, 'By the 1980s or so, virtually all vestiges of high development theory had disappeared from development economics' (ibid., p. 28). This is despite the fact that their key ideas 'remain intellectually valid and may continue to have practical applications' (ibid., p. 7); and so, '[t]he irony of course is that high development theory was right' (ibid., p. 28). The reason he gives for the disappearance of these valid and logically sound ideas is the fact that mainstream economics became 'essentially a collection of models. Broad ideas that are not expressed in model form…do not endure unless they are codified in reproducible—and teachable form' (ibid., p. 27); and leading development economists of the time 'failed to turn their intuitive insights into clear cut models that could serve as the core of an enduring

[42] In this tradition of economics which dates back to at least Antonia Serra (1613), as mentioned previously, capitalism is seen as a system of production (rather than exchange) and the main elements of capitalist dynamics and drivers of development are not capital, (undifferentiated) labor or markets but new knowledge, entrepreneurship, innovations and organizational ability (Reinert and Kattel, 2004, pp. 2–3). In contrast to the mainstream approach, here the main development policy goal is not static efficiency of resource allocation but increasing the productive capability of an economy (List, 1827, p. 189). In more modern terminology, the core aspect of development is considered to be transforming productive structures based on superior technology, skill, knowledge and organizational capability embodied in institutions (Chang, 2011).

discipline' (ibid., p. 24). In effect, mainstream economics has sacrificed theoretical/logical validity, relevance and practical applicability in favor of mathematical elegance and simplicity.

Meanwhile, as noted earlier, the 'development' debates over the past few decades have tended to focus solely on internal factors that determine success/failure in development as if external economic forces are always benign. In fact, the powerful countries are pressing the developing world to adopt wholesale trade liberalization on the grounds that the best way to raise global living standards is to maximize trade (Rodrik, 2001, pp. 5, 10; Shaikh, 2007, p. 50). This view is supported by the conventional economic theory which concludes that trade and financial liberalization will lead to increased trade, accelerated economic growth, more rapid technological change and a vastly improved allocation of national resources away from inefficient import-substitutes towards more efficient exportable goods (Shaikh, 2007, p. 51). This conclusion is arrived at through patently unrealistic assumptions of the standard trade theory including fixed labor (fixed endowments); full employment of resources; constant returns to scale; balanced trade; no transportation costs; perfect competition in all products; internally mobile but internationally immobile factors of production and differing production technologies across countries (Feenstra, 2004, pp. 1–2; Sen, 2005, pp. 1012–13).

The well-recognized empirical failures of both the classical and neoclassical theories of free trade led in the 1980s to the flourishing of a set of theories collectively known as New Trade Theories. The overall thrust of these theories is to extend the analysis of the standard theory by incorporating market imperfections, increasing returns, strategic behavior, new industrial economics and the new growth theory (Deranyagala and Fine, 2000, p. 4). The results of these 'new' models, particularly when they assume the presence of increasing returns activities (industries) in the developed 'North' while assuming decreasing/constant returns activities in the underdeveloped 'South', confirm the conclusions of GHB *et al.* in the sense that free trade would harm the 'South' while benefiting the 'North'. However, even the major contributors to this line of theorizing, such as Paul Krugman, recanted these possibilities and continue to advocate for free trade.[43]

One could say that the only notable recent mainstream work in the tradition of 'New Trade Theory' that unequivocally presents results that are similar to those of GHB *et al.* is Gomory and Baumol (2000), which shows that there are in fact inherent conflicts in international trade. Accordingly, once realistic assumptions are adopted, whether a nation benefits or loses from international trade critically depends on 'what countries actually choose to do, what capabilities, natural or human-made, they actually develop.... The existence of this range of outcomes, with such different consequences for the countries involved, implies that... a country's welfare is critically dependent on the success of its industries in international trade' (ibid., p. 5) This is hardly surprising to any of the intellectuals of GHB's tradition such as Ha-Joon Chang because, all along, they have been arguing, 'When it comes to high-productivity activities whose existence determines whether a country is economically developed or not, countries become good at something only because they deliberately decide to become so—there is really no "natural" reason for the Japanese to be good at building cars,

[43] See for example Krugman's Nobel Prize acceptance lecture (Krugman, 2009).

the Finns at making mobile phones, and the Koreans at making steel' (Chang, 2013, p. 9). The implication of this line of thinking is that 'If we left things to the market, high-productivity industries simply will not get established in developing countries, as there are already superior producers from the more advanced countries. If they want to develop those industries, they have to protect and nurture those industries through tariffs, subsidies and other means of industrial policy' (ibid.)—and this is precisely the logic of GHB *et al.*

8. Concluding remarks: are GHB' core ideas feasible today?

We set out to identify the core ideas of GHB that are particularly related to economic development, trace their intellectual linages and see if they are theoretically valid. In a nutshell, his major work contains a comprehensive set of mutually reinforcing ideas and policy proposals aimed at industrialization and structural transformation of an economically and technologically backward society. Their underlying aim (and those of the school of economic thought to which GHB belongs) is to gradually and sustainably improve the income and welfare of the nation and its peoples through a progressive move of the economy away from low-technology, low-skill, low-knowledge intensive, constant/decreasing returns-to-scale activities to higher-technology, higher-skill and knowledge-intensive and historically increasing returns-to-scale economic activities.

However, as attested by almost all cases of successful industrialization, this kind of structural transformation from 'matter' and 'nature' -based activities to artificial and 'mind' -based economic activities does not happen spontaneously and automatically through 'the market mechanism' as claimed by the dominant economics literature and policy discourse; instead, it requires pervasive and deliberate government interventions, as indicated in the previous section. Meanwhile, though the mainstream economics literature has grudgingly come to admit that more or less all past developmental success stories were achieved with pervasive government interventions like those suggested by GHB and other intellectuals of the same school of thought, it still refuses to admit that it has failed to come up with adequate theories that correctly identify and encapsulate the underlying principles and causes of the process of economic development. In the words of Servaas Storm,

> Development economics appears to have come full circle, as interest in and concern for industrialization have made a comeback, echoing major concerns of the early development economists. However, when it comes to the practice of industrialization strategy and industrial policy, the default recommendation is still the market and static comparative advantage—the main task of governments, in the new view, is to impose institutional reforms and improve governance so as to allow markets to perform more efficiently. (Storm, 2015, p. 669)

Thus, in recent years, the mainstream development discourse has admitted the theoretical possibility that ideas and policy proposals like those of GHB could work, and that the historical evidence is overwhelmingly behind them. However, when it comes to the current context of today's late-developing economies, the mainstream literature reverts back to its default position where what matters is the market mechanism and static comparative advantage; and the role of industrial policy is just to try to address 'market failures', 'externalities', 'coordination failures' (UNECA, 2016, p. 2), and to provide a 'nudge' for structural change in the right direction (Storm, 2015, pp. 687–88). Beyond these, the policy advice given to aspiring late developers appears

to be 'Don't try this at home!' because, it is argued, industrialization policies and programs similar to those of GHB may have worked in the past but could not work in countries like those in Africa for wide-ranging reasons such as excessive natural resource endowments (the so-called 'resource curse' thesis), pathological politics, the lack of bureaucratic capabilities and the changes in the global economic rules—but the implication is that these countries would be better off sticking to their natural resource advantages, rather than trying to develop manufacturing industries through industrial policy (Chang, 2013, p. 3).

However, even if an in-depth scrutiny of each of these reasons is beyond the scope of this paper,[44] it is easy to see why the excuses against transformative industrial policies in today's developing countries do not hold water. For instance, countries like Canada and Australia have successfully industrialized despite being rich in natural resources. Or if we consider the issue of the global economic (World Trade Organization, or WTO) rules not permitting the kinds of industrial policy interventions that were successfully employed by the now-developed countries, a closer look shows that 'In many places, the multilateral rules allow significant room for making interventions of choice. The WTO appears most tolerant in the use of tariffs, and developing countries have significant scope in this area. Even with subsidies, smart policies can evade several constraints. Flexibilities are largely available in investment policies. While many policies are allowed under TRIMS, the GATS regime allows even more space' (UNECA, 2016, p. 142; see also Amsden, 2004, p. 76 on this).

Therefore, the general conclusion that can be drawn from the forgoing discussion is that the main ideas propounded by GHB and other similar thinkers of the past and present are theoretically valid; have been proven to work under vastly different geographical, historical and socio-political contexts; and are feasible even under the current global economic rules. Thus, while bearing in mind GHB's emphasis on context-specificity of development policies and institutions, policymakers of the present late-developing countries would do well to learn from him and other like-minded scholars of the past. However, it has to be borne in mind that the journey is not going to be easy because, as a recent perceptive report on the subject put it:

> In orienting themselves towards transformative industrial strategies, policy-makers are likely to face several hurdles. Pressures from developed countries and international institutions will have to be resisted, if they decide to move away from free market dictates. Moreover, these countries would have to intelligently balance their needs for enhanced market access, which bring certain short-term benefits, and restrictions on industrial policy choices, which harm their long-term development prospects. They will also have to risk facing legal disputes and punishing tariffs from various countries... Those that are not yet part of the WTO or of bilateral agreements could be forewarned to negotiate more smartly when negotiating their deals. (UNECA, 2016, p. 142)

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[44] See Chang (2013) and UNECA (2016) for a detailed assessment of the reasons put forward against transformative industrial policies in Africa.

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Paper II

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Rethinking regional economic integration in Africa as if industrialization mattered

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ABSTRACT

This paper outlines an evolutionary and an historical theoretical framework to identify and propose taxonomic principles that can be used to analyze whether or not a given regional economic integration (REI) arrangement is transformative and developmental. Using this framework, it looks into the relationship between industrialization and regional economic integration in Sub-Saharan Africa (SSA). It also looks at how *asymmetric* economic integration with advanced economies has affected industrialization and *symmetric* economic integration in Africa. Based on historical evidence, the paper concludes that there is a positive, circular and cumulative relationship between industrialization and regional economic integration in SSA. It also concludes that the asymmetric economic integration of SSA economies with advanced ones has had negative, circular and cumulative impact on industrialization and (symmetric) economic integration in SSA. Therefore, it argues that, if industrialization and transformative REI is to take place in SSA, there is a need for making context-specific, dynamic and transformative industrial policies as center pieces of development strategies, for rethinking REI initiatives in such a way that they facilitate and amplify the effectiveness of these industrial policies and strategies, and for replacing the legacies of colonialism and neoliberal globalization with strategic integration of SSA economies *vis.* advanced economies.

1. Introduction

By now, observers of the international discourse about the development prospects of Sub-Saharan Africa (SSA) must be used to recurrent themes of excessive pessimism and optimism – both of which have been invariably associated with growth performances associated with international commodity price booms and slumps. For instance, Africa as a whole achieved moderate economic growth during the period from mid-1960s until the end of the 1970s which created optimism about the continent following decolonization. In particular, there was a notable acceleration of growth in sub-Saharan Africa (SSA) during the 1970s, supported by a boom in commodity prices and foreign aid (UNCTAD (2001: 3). However, economic performance deteriorated rapidly in SSA in the late 1970s and early 1980s; and stagnation and decline continued in SSA during the first half of the 1990s (UNCTAD, 2001: 3). The generally dismal performance of SSA economies inevitably created a widespread pessimism about the prospects of the economies but this was later somewhat dispelled by a fairly broad-based economic upturn which started in the mid-1990s (UNCTAD, 2001). In fact, over the period 2001–2008, Africa was among the fastest growing regions in the world economy, (UNCTAD, 2012: 2); and this also invariably generated substantial optimism about Africa's growth prospects and the dominant narrative changed from 'the dark continent' to 'Africa Rising'.[1]

In between these two alternating narratives there has always been an intellectual undercurrent (particularly from within Africa)

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[1] For instance, *The Economist* magazine, which had been known to be pessimistic about Africa's prospects (See for instance the article on the May 11, 2000 print edition of the magazine entitled "Hopeless Africa" (available at http://www.economist.com/node/333429 or another article entitled "The Dark Continent" on the August 16, 2007 edition (available at http://www.economist.com/node/9660077) [1], has concluded, [O]ver the ten years to 2010, six of the world's ten fastest-growing economies were in sub-Saharan Africa. . .. Over the past decade the simple unweighted average of countries' growth rates was virtually identical in Africa and Asia. Over the next five years Africa is likely to take the lead. In other words, the average African economy will outpace its Asian counterpart. (The Economist Online, "Africa's Impressive Growth", Jan 6th 2011)

and an urge for regional economic integration (REI) even if most of the regional integration initiatives have not met much success to date. And currently there is a strong emphasis on the importance of REI for Africa's development and a momentum to address the failings of past and current REI initiatives. Meanwhile, since the 1960s, there has been a recognition of the vulnerabilities of African economies due to their over-reliance on natural resources and primary commodities as the main sources of economic growth and export earnings (see e.g. UNCTAD, 2011: 2–3). Lack of economic diversification, industrialization and structural transformation have been major concerns to African policy makers and intellectuals over most of the post-colonial period (except during the era of the ascendance of neoliberalism and Washington Consensus). For instance, a recent *Economic Report on Africa* of the UNECA and African Union laments that Africa's recent impressive economic performance has not been accompanied by structural transformation but by de-industrialization (UNECA and AUC, 2014: X–XII). The recognition of lack of structural transformation in SSA economies seems to be one of the key reasons for the revival of advocacy for industrial policies in the past few years (See e.g. UNECA, 2016 and Stiglitz et al., 2013). However, the revival of interest in industrialization and structural transformation in academia and policy circles has, unfortunately, been too faithful of the neoclassical theoretical framework where the benign role of the market mechanism and dangers of 'government failure' are overly emphasized and given primacy, and sticking to static comparative advantage is recommended (Storm, 2015: 670). This is in spite of the overwhelming evidence that no country in history has ever industrialized by sticking to its static comparative advantage but through deliberate direction of the 'market mechanism' to create dynamic comparative advantage. (See Chang (2002) for details on this.)

Meanwhile, there is hardly any literature that looks at the linkages in Africa between industrialization and structural transformation on the one hand and REI on the other hand. More specifically, there is no significant literature that closely looks at the relationship between REI and the level of industrialization (or lack of it) in the integrating economies, i.e. how the proportion of manufactures in the composition of a country's exports is linked with the level of its trade with another economy with which it is engaged in some form of REI. Moreover, the available literature does not closely look at the external dimensions of the failure of SSA economies to structurally transform and the failure of REI initiatives in the continent, i.e. the how these failures are related to the kind of economic integration of the economies with more advanced counterparts located outside of Africa. Therefore, this paper aims to fill these gaps in the literature. Thus, firstly, it presents a historical analysis of how the external economic linkages that SSA economies have had with more advanced economies affected both the levels of industrialization and REI in SSA (particularly levels of intra-Africa trade). Secondly, it provides an historical overview of the relationship between the level of industrialization and the level and patterns of intra-African trade.

To this effect, the paper critically analyzes the foundations of the mainstream economics literature related to REI and attempts to show why it is inappropriate for the purpose of evaluating whether or not a given REI arrangement is transformative (i.e. facilitates long term development and industrialization of a late developing economy). Moreover, the paper outlines a long-ignored alternative theoretical framework to identify some taxonomic principles that can be used to evaluate different types of economic integration arrangements *vis*. their implications to structural transformation and industrialization in a less developed economy(ies). Though these principles have been around (though ignored) for very long time and stated by various authors in one way or another, this paper is probably the first attempt to streamline and apply them to look into REI arrangements, particularly those in Africa. As a result, not only does the paper arrive at conclusions that are clearly at variance with those of the dominant literature on the subject, it also identifies theoretically robust, mutually re-enforcing linkages between REI and industrialization in Africa thereby underlining the importance of designing and implementing dynamic, context specific and transformative industrial policies as well as the importance of rethinking extra-African economic linkages for achieving these two mutually re-enforcing goals.

2. Regional economic integration in the mainstream economic literature

In this section we shall briefly but critically look at the mainstream literature on regional economic integration with respect to developing regions and countries like those in SSA. In particular, we shall outline the main features of the mainstream theory and assess its appropriateness for late-development contexts. The findings of this review shall inform the presentation of an alternative theoretical framework that addresses the major weaknesses of the mainstream thinking on the matter and one that better fits the SSA context.

In the mainstream view, "Economic integration is basically concerned with the promotion of efficiency in resource use on a regional basis." (Robson, 1998: 2). In this line of thinking, perhaps the most influential work is Viner (1950; Viner, 1950[2014]) which spawned a large set of literature, and which discusses trade integration gains while explaining the theoretical implications of preferential trade agreements. The study identified concrete criteria to distinguish between the possible advantages and disadvantages of economic integration, and divided possible effects of economic integration into the now well-known ideas of 'trade creation' and 'trade diversion' effects (Viner, 1950).

These are essentially the static effects that emanate from shifts (induced by the integration of economies) in the production of certain export products from one member-country to another member-country, or from a nonmember-country to one of the member-countries, and result due either to a shift in product origin from a high-cost member-country producer to a low-cost member-country producer (*trade creation*) or a shift in product origin from a low-cost non-member country producer to a high-cost member-country producer (*trade diversion*) (Kyambalasa and Houngnikpo, 2016: 2). It is argued that while *trade creation* can improve member-countries' welfare (since such a shift would represent a movement in the direction of the free-trade allocation of a country's resources), *trade diversion* can generally reduce member-countries' welfare because it represents a movement away from the free-trade allocation of resources (Viner, 1950; Viner, 1950[2014]: 55). One can clearly see how these propositions take for granted that free trade is an ideal means of efficient and benign resource allocation (to be discussed in more detail below). In any case, Viner's study and subsequent developments of his ideas do not reach optimistic conclusions about the welfare enhancing effects of regional integration initiatives; in fact, they are said to be important and are likely to yield more economic benefit than harm only under specific and rare circumstances (Viner, 1950: 135; Hosny, 2013: 238).

Thus, the traditional static approach to REI failed to provide valid economic reasons for formation of preferential trade arrangements; and so there was a move within the mainstream towards dynamic approaches (Hosny, 2013: 138). For instance, Balassa (1962) introduced the concept of dynamic effects of regional economic integration and listed the principal dynamic effects of integration as large-scale economies, technological change, as well as the impact of integration on market structure and competition, productivity growth, risk and uncertainty, and investment

activity. Later theoretical developments within the mainstream have relaxed some of the unrealistic assumptions of the traditional economic integration theory such as the assumption of perfect competition in markets, and allow for imperfect competition, economies of scale and product differentiation; and new analytical perspectives on market integration emphasize the pro-competitive effects of larger markets rather than comparative advantage.

With respect to developing countries, the mainstream theories of REI have been criticized on several grounds. For instance, Hosny (2013: 143–44) reports that a number of studies have suggested that emphasis should be put on dynamic rather than static effects in evaluating the desirability of economic integration among developing countries. Jaber (1971), argues that dynamic effects of economic integration are far more important than static effects and may lead to higher rates of growth and exploitation of unused economic capacities (Jaber, 1971: 265). Meanwhile, Rueda-Junquera (2006) argues that the traditional theory of economic integration, centered on the static effects of resource allocation, suggest that there is little scope of benefits accruing to developing countries from economic integration (Rueda-Junquera, 2006: 3–4). Moreover, even within the mainstream, some authors such as Balassa (1962) argued that the relevant literature has dealt almost exclusively with customs union among industrialized countries whereas those countries' problems are not of economic development, but with relative marginal adjustments in production and consumption patterns (Balassa, 1962: 16) (and therefore, the theories are of questionable relevance to developing country contexts where the main problems are of economic development). Hosny (2013) also reports several studies that question the relevance of mainstream theories of regional economic integration for their confinement only to production and consumption effects while disregarding employment, productivity, and income effects that are essential in the context of developing countries.

However, in our view, the validity and relevance of the mainstream theories of REI to developing country contexts have not been directly and critically scrutinized with respect to one of their most important elements. Specifically, throughout the literature on the subject, REI is seen as 'second best' option whereas free trade is considered to be 'first best' or *the* benchmark for any gains and losses due to REI. In addition, the mainstream doctrine of the unqualified beneficence of specialization based on static comparative advantage, which underlies the mainstream theories of REI, has not been explicitly questioned with respect to its validity and relevance to developing country contexts. To be more specific, according to Robson (1998), "The orthodox approach looks at this question in terms of the effects of integration on efficiency and welfare, and almost entirely in terms of static resource allocation gains. It demonstrates that both customs unions and free trade areas can generate potential gains in terms of the national income of the bloc by encouraging specialization amongst the member countries *on the basis of comparative advantage*. (Robson, 1998: 4; emphasis added). The idea that free trade and across-the-board trade liberalization are considered as 'first best' is clearly also seen from Viner's conclusion that, "... customs union is only a partial, uncertain, and otherwise imperfect mean of doing what a world-wide non-discriminatory reduction of trade barriers can do more fully, more certainly, and equitably..." Viner (1950; Viner, 1950[2014]: 135). This is not surprising from the mainstream point of view where the doctrine of comparative advantage that underlies the arguments for free trade and specialization according to comparative advantage is considered as self-evident truth.[2]

Nevertheless, both the mainstream theoretical framework on regional economic integration, and more importantly, the standard trade theories underlying it are inappropriate for developing country contexts for several reasons. For one, the mainstream theoretical framework is inappropriate because it is backed by a theoretical structure where static efficiency gains are emphasized and specialization based on static comparative advantage is seen as something to aspire for whereas, historically, development precisely meant deliberately defying static, 'natural' comparative advantage and creating artificial, 'unnatural' comparative advantage, i.e. moving an economy away from 'nature intensive' economic activities towards 'mind intensive' economic activities. Secondly, the underlying framework makes 'heroic' domain assumptions that clearly do not reflect the context of developing countries such as the assumption of full employment of all resources.[3] Thirdly, the standard theoretical framework sees increased competition and 'text book' type perfect competition in any and all sectors of the economy as a good thing under all circumstances, whereas as discussed in more detail in the next section, 'mind-intensive' economic activities that carry the highest developmental potential are routinely characterized by dynamic *imperfect* competition. Moreover, standard trade theories of international trade, like other perfectly competitive general equilibrium models in economics, assume not only full-employment.[4] They also assume that flexible domestic and international product and resource prices *always adjust instantaneously* to conditions of supply and demand; and therefore, the terms of trade adjust to equate supply and demand for a country's exportable and importable products so that *trade is always balanced* (Todaro and Smith, 2012: 590). This assumption of instantaneously balanced trade is directly against the unequivocal evidence of persistent trade deficits suffered by less developed economies in their trade with advanced counterparts.

Thus, given the inappropriateness of the mainstream framework for developing country settings, one aim of this paper is to present an alternative theoretical framework that looks at regional economic integration in developing country contexts where regional integration initiatives are not evaluated against the benchmark of free trade as the 'first best' and where (and why) specialization based on comparative advantage is seen as 'developmental deadlock' rather than something to be aspired for. Instead, regional economic integration would be seen from the perspective of whether or not it would facilitate or retard structural transformation and industrialization in the integrating economies, i.e. whether it would facilitate a move away from specialization based on 'natural' and static comparative advantage or 'artificial' and dynamic comparative advantage in the economies involved.

[2] For instance, see Sacks and Warner (1995: 3).

[3] This assumption inappropriate particularly in SSA. For instance, a recent report by AfDB reports that unemployment, particularly among Africa's growing youth population of over 400 million, is estimated to be 48% in sub-Saharan Africa; the informal economy, which is characterized by lower incomes and a lack of job security and sustainability in Africa, contributes 50–80% of GDP, 60–80% of employment and 90% of new jobs. (http://www.afdb.org/fileadmin/uploads/afdb/Documents/Development_Effectiveness_Review_2016/ADER_2016-07Chapter5En.pdf.)

[4] This assumption is also prevalent in the so-called New Trade Theories (NTT) as well as New Economic Geography (NEG) models which tend to relax other restrictive assumptions like perfect competition, constant returns to scale, identical products, etc. These classes of mainstream models are attempts to address the shortcomings of standard trade theory by dealing with some of the realities of trade in a more complex and sophisticated manner by incorporating a fuller range of factors; however, they provide few unambiguous conclusions (Deranyagala and Fine, 2000: 4). In any case, while NTT focuses on explaining intra-industry trade (i.e. trade among industrialized countries), NEG models generally focus on explaining the geographical structure of the economy. In other words, it provides a theory for the uneven localization of economic activity, in particular the agglomeration of industrial activity in clusters, cities or regions – i.e. their area of focus and applicability to late development contexts and supra-national economic integration is limited.

3. An alternative framework for analyses of regional economic integration in developmental contexts

3.1. What the development process is all about and what it involves

In the alternative economics tradition – which can be broadly called evolutionary, historical and pragmatic – capitalism is seen as a system of production (rather than exchange) and the main elements of capitalist dynamics and drivers of development are not capital, (undifferentiated) labor or markets but new knowledge, entrepreneurship, innovations and organizational ability (Reinert and Kattel, 2004: 2–3). In contrast to the mainstream approach, here the main development policy goal is not static efficiency of resource allocation but increasing the productive capability of an economy (List, 1827: 189). In more modern terminology, the core aspect of development is transforming productive structures based on superior technology, skill, knowledge and organizational capability embodied in institutions (Chang, 2011).

Unlike what is idealized in the mainstream literature, this process of economic development is not about moving towards 'perfect competition' and equilibrium; instead, relentless rent-seeking by businesses through innovation and emulation *is* economic development (Reinert, 2009: 25). In other words, capitalism is all about rent-seeking in a sea of oligopolistic competition since, "A combination of technical change and increasing returns (Schumpeter's 'historical increasing returns') increased the minimum efficient size of operations and consequently barriers to entry and exit, making oligopolistic competition the name of the game in manufacturing industries" (Reinert, 2006: 26). This view sharply contrasts with the mainstream one which sees anything that causes imperfect competition as contributing to corruption and 'cronyism'. Thus, "Theoretically, the quest is for 'dynamic efficiency'—the ability of an economic system to *reconfigure* itself by constantly creating new dynamic activities characterized by higher productivity, positive spillover effects and increasing returns to scale . . .— not the static Pareto optimality implied by neoclassical general equilibrium thinking" (Storm, 2015: 679).

Moreover, historical evidence clearly indicates that, from a late-developer's perspective, economic development and catching up with the more advanced economies required industrialization and creation of production systems that revolves around historically increasing returns activities and the synergies they create (Reinert et al., 2011). In effect, almost all successful cases of economic development in history involved deliberately changing the productive structure of the economy and diversification "away from sectors with diminishing returns (traditionally raw materials and agriculture) to sectors with increasing returns (technology intensive manufacturing and services...In addition to breaking away from subsistence agriculture, this creates an urban market for goods, which will induce specialization and innovation, bring in new technologies and create alternative employment as well as the economic synergies that unite a nation state" (Reinert, 2006: 9). Furthermore, economic development requires transferring and mastering skills and, above all, creating a viable market for activities with increasing returns where the absence of purchasing power and massive unemployment tend to go hand in hand (Reinert, 2006: 7). Thus, in sharp contrast with the mainstream approach where full employment is routinely assumed, in this alternative approach, creation of productive formal employment *is* a key challenge and goal of economic development since massive unemployment is one of the key features of poor countries and lack of purchasing power is one of the key impediments to the expansion of businesses.

The overall policy implication of this theoretical framework is that industrialization, and particularly the growth and development of the manufacturing sector, should be put at the front and center of any national and regional development endeavor. To elaborate a little bit more on this point, we shall consider below why industrialization has more or less been equivalent to economic development and why, historically, growth and development of the manufacturing sector has been given so much prominence. We shall also consider the reasons why specialization in the production of primary commodities is tantamount to specialization in economic backwardness and poverty. These two considerations will help us identify some key principles for transformative economic integration including regional economic integration.

3.2. Why manufacturing is key to economic development

The main reason for the importance historically attached to the development of the manufacturing sector is the fact that it reflects and involves all the major features of developmentally 'good' economic sector: large division of labor (with a large number of different industries and professions); increasing returns to scale; large room for process and product innovation, learning, rapid technological change; capacity to create large amount of productive/formal employment; strong linkages with other sectors; etc. The sector also acts as the 'learning center' of the economy in the sense that it plays the leading role in diffusing technological progress; and due to its strong backward and forward linkages, it has the ability to produce productive inputs for other sectors; and therefore what happens in the manufacturing sector has been extremely important for productivity growth in other sectors (UNECA, 2016: 31; see also Storm, 2015).

For centuries, this was well understood by economists of the alternative tradition such as Serra (1613), Stuart (1767), Hamilton (1791), List (1841; List, 1841[1909]), Carey (1888) and Baykedagn (1924). This was also well understood by modern development economists such as Young (1928), Schumpeter (1939), Myrdal (1957), Hirschman (1958) and Kaldor (1966) who emphasized the fact that the dynamic heart of structural change – and thus economic development- is a process of *cumulative causation*, reinforcing and accelerating growth – basically because industrial expansion will create extra employment, incomes and demand, while raising productivity and profitability (through the Kaldor-Verdoorn law) and furthering investment (Storm, 2015: 675). Economic history also fully justifies this emphasis since, throughout the history of capitalism, the manufacturing sector has been the engine of economic development and there has hardly been no significant economy that has developed without developing a strong manufacturing base – so much so that the term 'industrialized country' and 'developed country' are often used interchangeably. (See also Chang et al., 2013, and Chang, 2014)

However, it has to be noted that the exclusive focus should be not on specific products or sectors but on their 'quality' in terms of deriving economic development forward – historically increasing returns to scale, large division of labor, dynamic imperfect competition, room for innovation and technical change, skill and knowledge intensity, strong synergy and linkages with other sectors, etc. In this sense, some skill-intensive services and 'industrialized' agricultural activities may be included as 'good' in terms of their capacity for wealth creation and contribution to economic development.[5] In contrast, historically, specialization in raw materials and primary commodities generally meant specialization in poverty, economic backwardness, lack of productive formal employment opportunities, etc. These are generally economic activities that tend to show

[5] On the contrary, this characterization of economic activities would make some types of manufacturing 'bad' since they show characteristics such as lack of room for learning, requiring very little skill or knowledge, very stiff product market completion and low profit margin, etc.

constant or decreasing returns to scale, narrow room for division of labor, knowledge and skill intensity. With respect to the importance of skill and knowledge intensity of economic activities as drivers of development, the comparison can be made along the lines of the pre-twentieth-century protectionist debate when German and American economists compared 'matter' vs. 'mind' – 'raw' vs. 'cooked', i.e. goods on which the human mind had added its skills and knowledge tend to have more value.[6]

There is also stark contrast between raw materials and primary commodities *vis.* skill and knowledge intensive, historically-increasing-returns-to-scale activities with respect to market structure. Market structure for these kinds of products generally tends to be highly competitive (approaching what is seen as 'perfect' competition in the mainstream literature). In fact, this is the main reason behind the key insight of Hans Singer that learning and technological change in the production of raw materials, particularly in the absence of a manufacturing sector, tend to lower export prices, rather than increase the standard of living in the raw material producing nation (Singer, 1950). From a developmental perspective, an important idea here is that learning and technical change "tends to create wealth for producers only when they are part of a close[d] network, once called 'industrialism'—a dynamic system of economic activities subject to increasing productivity through technical change and a complex division of labor (Reinert, 2006: 12). If this is not the case, primary commodity producers (mostly based in developing countries) end up passing on all the surpluses generated by productivity growth to consumers, while manufacturing producers (mostly based in rich countries) can appropriate such surpluses more easily by charging customers higher prices because most of them operate in oligopolistic markets (UNECA, 2016: 33).[7]

From this discussion, the main conclusion with respect to development policy from a late comer's perspective is that, the overall aim should be to constantly and deliberately move the economic structure away from specialization in economic activities that are characterized by 'perfect competition', low-skill and technology intensity, decreasing or constant returns, low backward and forward linkages, etc. to those that are characterized by dynamic imperfect competition, higher- skill and knowledge intensity, complex division of labor, historically increasing returns to scale, etc. To put it in terms that reflect the focus of this paper, the main developmental goal should be artificially creating 'comparative advantage' in the production of 'high-quality' economic activities. This process does not happen spontaneously or through a pure market process. In fact, "when it comes to high-productivity activities whose existence determines whether a country is economically developed or not, countries become good at something only because they deliberately decide to become so—there is really no 'natural' reason for the Japanese to be good at building cars, the Finns at making mobile phones, and the Korean at making steel (Chang, 2013: 9).

Even within the neoclassical framework (traditional and 'new' trade theories), it is admitted that if things are left to the market, high-quality economic activities will never get established in poor developing countries since there are already superior producers in the more advanced economies. Therefore, the aim from the late-developer's perspective would not be to instantaneously become the most competitive international producer of such products but to create less efficient copies of the structure of the advanced economies. In fact, historically, few nations had the ambition to compete with the world industrial leaders of the day; but they understood that compared to being a supplier of raw materials, the nation could massively improve its welfare by industrializing, even if the industrial structure created would end up being less efficient than that of the world leader (Reinert, 2006: 5)[8] The fact that creation of less efficient 'copies' of the economic structure of more advanced economies is literally impossible (even under the assumptions of mainstream international trade theories) if things are left exclusively to the market forces calls for industrial policies – by which we mean policies aimed at strategically creating comparative advantage in economic activities that embody dynamic efficiencies including "increasing returns and potential for technological development, learning by doing, training, raising labor productivity and energy efficiency, and externalities (including diffusing managerial and marketing skills) (Khan, 2011: 4).

3.3. Taxonomic principles of regional economic integration

Now, if we consider deliberately changing the productive structure of the economy and diversification away from 'bad' economic activities and 'developmental dead ends' and towards creation of dynamic comparative advantage in developmentally 'good' economic activities as the main development policy goal, then we can identify some key taxonomic principles with which we can evaluate whether or not a particular economic integration arrangement is good for economic development. The subsequent analysis of REI in SSA is based on these principles. In effect, these taxonomic principles have been around in more or less sophisticated form at least since the publication of Charles Kings' three volume work in 1721[9] and they have been re-stated in various forms by intellectuals advocating industrialization from the perspective of late development.[10] Therefore, the only novelty here is that we use them specifically to analyze the possible developmental impacts

[6] The industrial battle between nations is, in essence, the continual upgrading and adding of human skills to raw materials. Venetian glass blowers added value to sand, silicone chip producers add even more value per unit of sand. The nations which specialize in providing the 'raw' sand will inevitably lag behind in skills and, consequently, in the value of their manpower. As a result they will, as Marx put it, 'increasingly have to give up more hours of labor in exchange for less hours of labor'." (Reinert, 1998: 282).

[7] There are also other reasons why one would not want to specialize in primary commodities and raw materials. For instance, as the Prebisch-Singer hypothesis postulates, the terms of trade (TOT) for primary commodities will deteriorate over time, making the prospect of economic development based on primary commodities dim in the long run. There are a number of reasons for this. First is the Engel's Law, or low income-elasticity of demand for agricultural products – as incomes grow worldwide, the relative demands for those products fall. Second is the fact that countries specialising in manufactured products have the ability to come up with synthetic substitutes for primary commodities – as it happened with products like guano, saltpetre, and natural dyes, the invention of synthetic substitutes reduce demands for primary commodities and thus drive their prices down. Third is the price volatility of primary commodities which make export earnings volatile and macroeconomic management difficult. (UNECA, 2016: 33–34)

[8] The logic is like that of an individual who, instead of being London's most efficient shoeshine boy, raises his income by choosing to become a mediocre lawyer. Thus, when United States started industrializing, its leaders merely wanted to create a (less efficient) version of the production structure in England, a process which required tariffs." (UNECA, 2016). The 19th c advocates of American industrialization who vehemently opposed the free trade doctrine of Britain understood epitomize the idea that specialization in primary products is tantamount to specialization in economic backwardness and poverty. Stewart (1872) describes it as a folly that "would make the American people 'hewers of wood and drawers of water ' for England – "suicidal policy which would crush our own, and build up the manufactories of Europe" (Stewart, 1872: 5).

[9] Charles King (1721) The British Merchant, or, Commerce Preserved: in Three Volumes. Reinert and Kattel (1994) summarizes King's view as follows: "Good trade is importing raw materials and exporting finished goods. Exporting finished goods produced from native raw materials is the best kind of trade for a nation, but importing raw materials and exporting the finished goods is also good trade. Importing manufactured goods in exchange for raw materials is bad trade. But interestingly, exchanging manufactured goods for other manufactured goods is beneficial to both sides, i.e. mutually good trade." (Reinert and Kattel, 1994: 6).

[10] Freidrich List (1841; List, 1841[1909]) for the case of Germany; Carey (1888) for the case of USA and Baykedagn (1924) for the case for Ethiopia. Kaldor's Four Laws are also excellent summaries of these principles where he saw industrialization as the only escape route out of increasing impoverishment (Targetti, 2005: 1197) and

of regional economic integration (REI) arrangements, i.e. instead of 'good' and 'bad' trade *a la* King's taxonomy, we will look at 'good' and 'bad' types of REI arrangements.

- *Industrialization as the key objective*: The major goal of economic development policy should be industrialization in the sense of nurturing and developing 'good' economic activities. Therefore, *any supra-national economic integration initiative should be evaluated primarily based on its impact on the growth and development of higher quality economic activities and sectors in an economy–and not based on its 'trade creation' and 'trade diversion' potential and neither by looking at its static welfare effects.* This would generally mean its impact on skill- and knowledge intensive manufacturing, services and 'industrialized' agriculture in an economy.
- *Space for transformative industrial policy*: In almost all historical cases, industrialization and structural transformation of a late developing economy required conscious, dynamic, context specific and transformative industrial policies aimed at changing the structure of an economy away from specialization in 'low quality' economic activities towards 'high quality' ones.[11] Therefore, *any REI that limits the space and scope for transformative industrial policy making and implementation and strategic interventions is bad whereas that which expands this space and scope is good in this sense*.
- *Synergy and coherence*: *An REI that promotes and facilitates synergistic and coherent development of primary commodity production (particularly food*[12] *and export and historically increasing returns activities within the individual economies is good*; an RIE that does this only at the level of the region is good if and only if there is an integrated labor market, effective institutional mechanism for re-distribution of 'gains from trade' and all its members operate under a unified macroeconomic framework.
- *Symmetric and Transformative vs. Asymmetric and Colonial types of REI:* Any REI that promotes specialization and/or re-specialization based on (static) comparative advantage is bad whereas one that promotes moving away from low-skill, low wage, less innovative, etc., and promotes technological upgrading towards dynamic imperfect competition and historically increasing returns to scale is good. Freidrich List (1841; List, 1841[1909]), who is rightly credited to be the "prophet of the European Union" (of until its expansion and inclusion of less developed countries such as Greece and former socialist countries) (Wendler, 2013: 200), argued that transformative economic integration can happen only among and between nations that are at *similar* levels of economic development, and would be beneficial in the long-term only if it is done in such a way that a healthy industrial fabric is retained in all the integrating economies. This is because, in a context where one economy is less developed than its competitor (in terms of having economic sectors which employ better technology and skilled labor; exhibit increasing returns to scale; require higher division of labor; and have greater potential for technical change, learning by doing and synergistic development), economic integration would have a negative impact on structural transformation and catching-up in the less developed economy. In other words, *asymmetric* economic integration or liberalization under such context would lead to de-industrialization and re-specialization in activities that require less division of labor, less skill and technology, decreasing or constant returns to scale, etc. (and hence lower wages, higher levels of poverty, higher rates of unemployment, etc.). In effect, the less developed economy will be locked into 'structural stagnation' by re-specialization based on its static comparative advantage.[13] Therefore, *REI among countries which are roughly at similar stages of industrialization may be good while that among asymmetric partners is generally bad for economic development particularly if it is done in such a way that it destroys the existing industrial fabric in the less developed economy (even if it is less efficient–as existence of less efficient manufacturing sector is much better than having none at all).*[14]
- *Need for effective, selective and temporary protection of local industries: Industrialization requires captive home markets and effective protection at initial stage*. Therefore, even symmetric REI can only succeed in promoting industrialization if and only if it is accompanied by common, strategic, dynamic, temporary and effective external protection (against competition from more developed economies). This is because, when two or more economies that are at roughly similar levels of development integrate, the benefits of larger home market can facilitate industrialization in the integrated region if and only if more competitive products from outside the integrated region are not allowed to compete with those produced within the region; otherwise, the REI initiative will just hasten the destruction of whatever less-efficient industries that exist in the region (as the more competitive producers

argued that: (1) economic development requires industrialization; (2) this in turn presupposes an 'agriculture revolution'; (3) entering into the global market requires a temporary stage of protection for newly established industries; (4) this must be accompanied by export-led growth policies (Targetti, 2005: 1186).

[11] See Chang (2002) for an excellent summary of how almost all significant cases of successful industrialization followed this path. See Freidrich List (1841; List, 1841[1909]) for a case study of UK; Johnson (1985) for the case of Japan; Wade (1990) for the case of Taiwan; Amsden (1989) for the case of South Korea.

[12] The early development economists such as Ragnar Nurkse, Arthur Lewis and Kalecki understood perfectly well that in a poor economy with a large subsistence agricultural sector, successful industrialization needed a parallel effort of increasing food production to avoid the danger of running into the Ricardian trap (Storm, 2015: 682). There is substantial subsequent literature inspired by Kalecki which explores the conditions for a virtuous cycle in which (i) a growing agricultural sector provides sufficient wage goods at affordable prices to the growing industrial workforce; (ii) expanding farm incomes provide a growing domestic market for the infant industrial sector; and (iii) the expanding manufacturing sector supplies ever more productivity-enhancing intermediates (fertilizers) and capital goods (tractors and pump sets) to farmers (Strom, 2015: F.N. #29).

[13] Furthermore, "When two nations at widely different technological levels integrate, the first casualty is the most advanced economic activity in the least advanced nation. This in turn contributes to factor-price polarization and migration of skilled labor" (Reinert, 1980; as cited in Reinert and Kattel, 2004). Reinert (1980) and Reinert and Kattel (2004) describes this as the 'winner-killing effect' and Jaroslav Vanek has called it 'the herbicide effect of international trade' and 'destructive trade' (Vanek, 2002). This so-called 'Vanek–Reinert' effect is fully compatible with standard international trade theory: under free trade each nation reinforces its comparative advantage – the wealthy First World reinforces its comparative advantage in higher skills, increasing-return industries, while poor nations fall back on their comparative advantage in diminishing-return industries; a comparative advantage in a diminishing return activity is a 'natural advantage' based on nature's bounty, whereas a comparative advantage in an increasing-return activity is a 'created advantage', based on human innovation and skill (Reinert and Kattel, 2004: 163).

[14] See Carey (1888: 372, 360, 367) on America's policy of pushing the Republic of Mexico and native American Indians towards primitive economic activities and raw material production as short-sighted and narrow-minded (Carey, 1888: 372; See also Carey, 1888: pp. 360, 367 on how forced specialization due to British colonial policy left "vast heaps of humanity, festering in compulsory idleness" and leading to "barbarism, leading to famines and pestilences, ending in decay and death, and thus giving color to the theory of over-population"). See Reinert and Kattel (2004) on how shock liberalization of the Mongolian economy in the early 1990s destroyed the industrial sector in the country and led to re-specialization in primitive economic activities. Reinert (2013) demonstrates how the most technological advanced sectors in the former Soviet Bloc were wiped out by free trade shock after 1989 and were replaced with some of the most rudimentary economic activities – "Hand-peeling of shrimps in Holland was moved to locations with cheaper labor like Poland. The Baltic countries closed down their heavy industry and got a formidable comparative advantage in activities like picking wild mushrooms." (Reinert, 2013: 28). Other similar historical cases abound where less efficient manufacturing sector was wiped out without being replaced with something better due to trade liberalization including India following its fall under the British rule (Chang, 2002, 2007) and Ethiopia around the turn of the 20thc (Baykedagn, 1924).

of more advanced economies will find the expanded market in the integrated region even more attractive).[15]

- *Industrialization requires both changing the structure of external trade and re-orientation of economic infrastructure* – industrialization requires 'internal improvements', internal market development and import substitution[16] – where export is promoted only as a means of earning hard currency for vital imports, to access more lucrative foreign markets, and as performance bench-mark.[17] And therefore, *RIE could only be transformative and developmental if it facilitates and catalyzes, and if it is conceived simultaneously with this process of reorientation of resources and economic infrastructure towards development of local markets and industries.*

4. Challenges to transformative regional economic integration in africa

4.1. Introduction: consistent commitment, disappointing results

According to UNCTAD (2009), the importance of regional economic cooperation and integration as a means for accelerating and consolidating economic and social development has long been recognized by African decision-makers where unity, cooperation and integration of Africa were long-standing aspirations of many Pan-African leaders (UNCTAD, 2009: 1). The major economic rationales for REI in the continent had to do with the geo-political configuration of Africa which had been largely determined by the continent's European colonial powers as a result of which small domestic markets and continental fragmentation translated into lack of scale economies in the production and distribution of goods and services (Hartzenberg, 2011: 4). It was understood that "regionalism, especially regional market integration, had been a way to help solve the structural problems that the African economies were confronted with" (UNCTAD, 2009: 1).

In fact, since independence, African governments have embraced regional integration as an important component of their development strategies and concluded a very large number of regional integration arrangements (RIAs), several of which have significant membership overlap, and where they are generally ambitious schemes with unrealistic time frames towards deeper integration and in some cases even political union (Hartzenberg, 2011: 2). The declared commitment for economic integration is still very high particularly through the African Union which sees the Regional Economic Communities as critical building blocks for continental unity in order to realize its vision of "an integrated, prosperous and peaceful Africa" (AU, 2014: para. 3 and 4). At a concrete level, as stipulated in the Abuja Treaty, one of the targets for African countries with regard to trade integration is establishment of a free trade area in each regional economic community by 2017 (UNECA, 2015b: 5). More recently, the continental body has agreed an ambitious target of establishing an African Continental Free Trade Area by 2017 (UNECA, 2015b).

Hartzenberg (2011) states that the immediate post-independence era (i.e. 1960s–1970s) was characterized by a strong commitment to economic planning, and since economic planning would be more feasible at a continental and, in an interim phase, at a regional level. "Underpinning this policy approach was the belief that development would be promoted by industrialization, in particular core manufacturing. The industrialization-regional integration interface was clear. Larger, protected markets in the various sub-regions would support a policy of import-substituting industrialization." (Hartzenberg, 2011: 12). And industrialization was part of the early post-independence discussion on regional integration as a remedy to continental fragmentation, small economies and small markets with limited scope for economies of scale, but it has not, in recent years, featured explicitly on the integration agenda (Hartzenberg, 2011: 20). In other words, the initial conception of REI in post-colonial Africa was transformative and generally in line with the taxonomic principles of the alternative economics tradition presented in the previous section.

However, despite the consistent declaration of commitment for regional economic integration, there is a near consensus as to the disappointing results of the REI arrangements to promote intra-regional trade or indeed to enhance the global trade performance of African countries (Hartzenberg, 2011: 12). For instance, UNECA (2015b) bluntly states, "The efforts by Africa's regional economic communities to promote industrialization appear largely ineffective." (UNECA, 2015b: 82) and rightly mentions failure to link regional industrial development frameworks to their other activities and "the virtual disconnection between their efforts and trade negotiations more generally, in particular North–South bilateral and regional trade agreements" as some of the main reasons for the disappointing results (UNECA, 2015b).

Meanwhile, one of the mainstream takes on the cause of the failure is a circular argument: REI failed because the internal markets of the continent are too small and fragmented. For instance, Hartzenberg (2011) states, "Integrating very small and poor economies still results in a relatively small regional market." (Hartzenberg, 2011: 12). Another mainstream take on the matter is to blame inward-looking industrialization strategies themselves, typical of which is de Melo and Panagariya (1993) which concludes that, among other things, "the structural characteristics of the SSA economies" and "the pursuit of import-substitution policies" prevented any meaningful trade integration in SSA (de Melo and Panagariya, 1993: 239). They further argue, ". . . there is no theoretical and empirical reason to believe that an import-substituting trade-integration strategy, even when successfully implemented, would have been welfare-improving. Other forms of integration, especially government activity and regulation integration, as well as trade integration when pursued as a complement rather than as substitute for global trade liberalization, may nevertheless help the SSA economies to overcome the current economic impasse by providing an enabling environment to those SSA producers that begin competing in world markets" (de Melo and Panagariya, 1993). Quite naturally they go on to recommend across-the-board liberalization through structural adjustment policies as a remedy (de Melo and Panagariya, 1993: 265).

In contrast, we aim to show below that, in the African context, the main problem has not been the geographical size of the market

[15] This is why EU has been generally inward looking as illustrated by the former the EC Commissioner for Foreign Relations Willy de Clerq's statement: 'We are not building a single market in order to turn it over to hungry foreigners'. (as quoted in Winters, 1993: 207–208). This is also the main reason why the 18th and 19thc American economists like Hamilton (1791), Carey (1888) and other leaders of the "American System" as well as List (1841; List, 1841[1909]) underlined the importance of 'protective tariffs' – i.e. protection meant to foster and nurture 'infant' local industries.

[16] Local market development and facilitation of domestic industrialization through 'internal improvements' (i.e. economic infrastructure – particularly transport infrastructure) was one of the three key elements of the famous (but now ignored) American System of political economy which formed a critical intellectual foundation for American industrialization in the 19thc. (see e.g. Greenfeld, 2001: 393). In a similar line, Baykedagn (1924) also rightly stresses the importance of development of inward-looking physical infrastructure for industrialization of Ethiopia (together with his emphasis on dynamic industrial policies, selective protective tariffs, human resource development and development of the financial sector in such a way that it promotes industrialization).

[17] The critical need for export earnings during early stages of industrialization is quite obvious as the process requires, among other things, importation of technology (which is not available for free as in standard theories) and machinery. Good examples of how success in international market was used by policy implementers as performance criteria for conditional favors and protection for domestic producers are South Korea and Taiwan (See Amsden (1989) and Wade (1990), respectively for details.)

but failure to facilitate the creation of a mutually reinforcing cycle of market expansion and industrialization where regional economic integration expands the geographical size of the market while industrialization generates better incomes and hence creates effective demand in the integrating economies. We also aim to show that the colonial legacy of specialization in 'bad' economic activities, 'wrongly directed' infrastructure, and later developments that reinforced these wrong directions and economic orientations are the keys to understand the failure of regional economic integration in Africa.

4.2. Colonial and post-colonial asymmetric integration and its impact on structure of SSA economies

That all Negroes shall be prohibited from weaving either Linnen or Woollen, or spinning or combing of Wooll, or working at any Manufacture of Iron, further than making it into Pig or Bar iron: That they be also prohibited from manufacturing of Hats, Stockings, or Leather of any Kind . . . Indeed, if they set up Manufactures, and the Government afterwards shall be under a Necessity of stopping their Progress, we must not expect that it will be done with the same Ease that now it may. Joshua Gee (1729).[18]

In the alternative tradition of economics, colonialism was seen essentially as a technology policy since a key aspect of colonialism was to prohibit manufacturing in the colonies; and the above quote from the English economist Joshua Gee is typical of colonial economic policy (Reinert, 2009: 20). Therefore, rebellion against colonialism has in almost all cases been accompanied by a program of industrialization (Reinert, 2009). In fact, as we shall see below, colonialism in Africa confined the nascent economies to specialization in primary commodities and other 'bad' economic activities while barring development of manufacturing, thereby limiting any possibility for transformative regional economic integration.

Admittedly the impact and nature of the colonial regimes showed considerable variation across Africa (Stein, 2000: 6). Nevertheless, there were remarkable similarities and common legacies such as the fact that there was virtually no attempt to create manufacturing or industry; instead the emphasis was on enclave forms of investment like mining which had few linkages to the surrounding economy with very few exceptions like South Africa, South Rhodesia and Kenya (owing to a large settler population) (Stein, 2000: 7). Moreover, colonialism in Africa effectively ensured that the forms of production in these countries are externally oriented where industrial development was discouraged; cash crop agriculture (as opposed to food production) was encouraged such that agricultural activities were geared toward export and "colonial dependence was reinforced by the dominance of trade monopoly supported and encouraged by the colonialist state with its control over mines, land, and manpower in the colonized countries" (Oloruntoba, 2016: 47; see also Stein, 2000: 10).

The size of African markets for manufactured products were quite small. Nevertheless, "Where there were opportunities, colonial governments were rarely interested in upsetting the status quo in which colonial markets for manufactured goods were supplied largely by monopsonistic European merchants, selling goods disproportionately produced in the European metropolitan economy concerned (Austen, 2010: 11). Colonial powers also did not facilitate the import of capital into their African colonies except into mining, and to some extent in 'settler' and "plantation" agriculture (Austen, 2010: 13). To some extent, they also invested in transport infrastructure but this was almost exclusively to facilitate the development of export-import trade: "Colonial governments and European firms invested in both infrastructure and (especially in southern Africa) in institutions designed to develop African economies as primary product exporters ((Austen, 2010).

As a result, manufacturing was extraordinarily small as a percentage of GDP at the end of the colonial period.[19] In fact, the colonial economies were dependent on one or two crops or minerals for their exports to such an extent that, in 1959, agricultural and mineral commodity exports relative to total exports in ten territories in sub-Saharan Africa were 92.7% (Stein, 2000: 13). Moreover, at independence, "the post-colonial governments inherited economies with low levels of education, poorly developed infrastructure, few African entrepreneurs, little technical change in agriculture, undiversified economies with small manufacturing capability, a reliance on a few crops or minerals for export earnings and state structures and policies which were quite intrusive (Stein, 2000: 13).

Following decolonization, the internal political economy contexts and development management approaches followed by African governments were far from ideal and effective. According to Stein (2000), bureaucracies often expanded based on politics not professionalism; states had a general antipathy for the private sector or patrimonialism greatly affected the character of the private sector; both greatly weakened the group; state owned or partly owned industries relied on aid frequently tied to technology from developed countries with high import coefficients and little linkage to local capabilities (Stein, 2000: 19). That as it may, since most of Africa was still under colonial rule when most other developing economies embarked on import substitution industrialization, the import substitution phase in most of sub-Saharan Africa was relatively short, lasting barely a decade in many countries (Mkandawire, 1988).

Nevertheless, according to de Vries et al. (2013), the expansion of manufacturing activities during the early post-independence period led to a growth enhancing reallocation of resources but this process of structural change stalled in the mid-1970s and 80s. This was largely due to the onset of sweeping liberalization programs forced upon African economies by the international financial institutions and their major donors. This followed the *Berg Report*[20] which justified the sweeping liberalization initiatives arguing that Africa's comparative advantage lies in agriculture (Jomo, 2008: 9). The *Report* also assumed that African import substituting industries had been protected for far too long, and would never become viable, let alone competitive; and therefore it concluded that industrial policy and the existing (inefficient) industrial capacity had to be abandoned (Jomo, 2008: 15). All in all, there was widespread, sweeping and rapid opening up of trade, investment, finance and other flows in SSA; and very often, such liberalization was externally imposed by the Bretton Woods institutions as part of conditions imposed to secure access to emergency credit during the debt crises of the 1980s, and more recently, in the wake of more currency and financial crises (Jomo, 2008). "African countries had been largely 'adjusted' by the late 1990s, with major changes in African

[18] In his work Trade and Navigation of Great Britain Considered as quoted in Reinert (2009: 20)

[19] The share was as follows for the year 1960: was Nigeria (4.5%), Ethiopia (6%), Belgian Congo (14%), Sudan (4.8%), Tanganyika (3%), Kenya (9.5%), Gold Coast (6.3), Uganda (6.5%), Angola (4.3%), Cameroon (6.0%), Southern Rhodesia (16.0), Northern Rhodesia (5.5), Ivory Coast (5.3%), Senegal (9.5%), Dahomey (1965) (2.6%), Sierra Leone (6.3%), Togo (4.1%), and Gabon (6.1%). (Source: Stein, 2000: 11–12; Table 2)

[20] The **Berg Report** is the name most commonly used for the World Bank-published report Äccelerated Development in Sub-Saharan Africa: A Plan for Action,ẅritten by Elliot Berg in 1981. The report was written in response to a 1979 request from the African Governors of the World Bank for a paper analyzing the development problems facing African countries. It also responds to a set of policies determined by African Chiefs of State in 1980, called the Lagos Plan of Action. While the Lagos Plan endorsed inward-looking policies of African self-reliance, the Berg report advocated for outward-looking policies of increased international trade (Source: Wikipedia).

economic policies and institutions. Africa has been 'liberalized' and opened to 'globalization"' (Jomo, 2008: 6).

The result of liberalization was economic stagnation, premature de-industrialization "and agricultural decline, rather than structural change induced by differential productivity gains and changing demand due to increasing incomes to such an extent that the rates of growth of manufacturing value added have fallen continuously from the 1970s, and actually contracted by an annual average rate of one per cent during 1990–97 (Jomo, 2008: 7–8). Even when growth rebounded in the 1990s, in most African economies, workers mainly relocated to market services industries where these activities had above-average productivity levels, but productivity growth was low and increasingly falling behind the world frontier – 'a pattern of static gains but dynamic losses' (de Vries et al., 2013). Essentially, African economies still reflect colonial economic structure: the share of manufacturing in total value added stood at 8% in 1970, 13% in 1990, 12% in 2000 and 10% in 2011 (Stein, 2000:13; UNCTAD, 2014: 4–5). Thus, failure of SSA economies in terms of industrialization and structural transformation is such that, "for most countries in the continent, it is low-productivity activities such as informal and non-tradable services that account for the bulk of the recent boom in the services sector and so it is not surprising that it has not had the expected impact on economic transformation" (UNCTAD, 2014: 4–5). Moreover, as we shall argue in the next section, it is this failure to industrialize which, by determining the content of their exports, largely determined the level and pattern of intra-Africa trade – thus negatively affecting regional economic integration in the continent.

4.3. *The structure of external trade and economic integration in Africa*

As of 2013, intra-African trade as percentage of gross domestic product (GDP) stood at around 9% – a figure that is very low compared to other regions of the world. Also, intra-African trade at 16.3% of total trade in 2013 is still low when compared with other regions (UNECA, 2015a: 35). The average level of intra-African trade, though fluctuating, has consistently remained at around 15% of Africa's total trade over the past decade, implying that 85% of African trade is with the outside world (UNECA, 2015b: 2). This trend has a lot to do with the composition of Africa's exports which are highly skewed towards unprocessed, resource-based commodities which accounted for 68 per cent of Africa's total merchandise exports in 2013 (UNECA, 2015a:.35).

Interestingly, the composition of intra-Africa differs greatly from that of extra-African trade: about two-thirds (67%) of intra-African trade is manufactures (compared to 32% trade with EU) (ECA, 2015a: 36; Chapter 4). It is with this fact in mind that UNCTAD (2013) rightly argues, "What Africa produces and exports matters for intra-African trade. The narrowness of African production and export structures and relative dependence on primary commodities are inhibiting factors to the boosting of intraregional trade in Africa." (UNCTAD, 2013: 14). In addition, the relatively more industrialized economies within Africa are the major export destinations for other African countries: in 2011 Algeria, Egypt, Nigeria and South Africa accounted for 67% of total African GDP and they also constituted important export outlets in their respective regions; in the period from 2007 to 2011, 63.8% of intra-African imports were absorbed by these four economies along with Côte d'Ivoire (UNCTAD, 2013: 23).

In summary, the share of manufacturing in intra-African trade is much higher than its share in extra-African; but the importance of manufacturing in intra-African trade has been falling over the last decade mainly due to the general decline in the share of manufacturing in GDP of most African economies. In fact, the share of manufacturing in both intra-African and in extra-regional trade has been falling since 1996, "signaling a process of deindustrialization resulting from: (a) manufacturing development in Africa being confronted with competitiveness challenges and (b) the boom in commodity prices shifting policy focus and resources into commodity exports" (UNCTAD, 2013: 36). Overall, structural transformation has not happened in Africa as resources have kept moving from agriculture and industry to the services and informal sectors; and "although industry has contributed to economic growth, its recent growth has not reached post-independence period levels, nor has it been driven by manufacturing." (UNECA, 2015a: 170). Therefore, the size and composition of intra-Africa trade is critically dependent on the overall composition of the exports of African economies; and hence, as long as African exports are dominated by primary commodities (i.e. as long as African economies are not industrialized), it not reasonable to expect significant increases in intra-Africa trade as compared to extra-Africa trade. In other words, Africa is not trading much within itself because it has failed to industrialize.

Meanwhile, both the low level of industrialization and intra-Africa trade are partly due to the way African economies are integrated with more advanced economies. The bilateral, regional and multilateral trading arrangements that African economies have signed-up so far are such that they tend to integrate African economies as suppliers and sources of raw materials and natural resources – re-enforcing rather than reversing the colonial legacy. As indicated in the previous section, the sweeping across-the-board trade liberalization under SAP and Washington Consensus meant that African countries not only lost their nascent (and inefficient) manufacturing industries but also the policy space for infant industry protection and promotion. Moreover, liberalization favored developed country exports compared to intra-African imports: An African exporter to markets outside the continent faces an average protection rate of 2.5%, largely as a result of the preferences African exporters enjoy under the GSP, the Everything But Arms (EU) initiative and the US African Growth and Opportunity Act. However, if the same good is exported to an African market, the exporter faces an average applied protection rate of 8.7% (UNCTAD, 2013: 52). And thus, thanks mainly to trade preferences—it is on average cheaper for African countries to export to a foreign market than to an African counterpart (UNECA, 2015a: 151).

Therefore, if intra-Africa trade is to grow, two intertwined policy initiatives are required: domestic economic policies focusing on industrialization (and particularly growth and development of the manufacturing sectors) and deliberate strategies to reverse the colonial-type trading arrangements and economic linkages with the advanced economies. In particular, REI initiatives should aim at reducing trade barriers against intra-Africa trade, and selectively, dynamically and strategically increasing common barriers against manufactured imports into the region from more advanced economies. Unfortunately, as we shall see shortly using the case of EU's approach to trade and economic integration in Africa, this appears to be getting more and more difficult in the current international context. Moreover, for most African countries, industrial development is not a central economic policy objective but just one of their many priorities. As UNECA (2015a) concludes based on findings from 10 African country case studies on their trade and other policies, there is little synergy, with few countries promoting industrialization via selectivity (UNECA, 2015a: 171).

4.4. *Case study 1: EPAs and what is wrong with asymmetric economic integration*

Ever since the signing in 1957 of the Rome Treaty which gave life to the European Common Market, European countries sought to maintain a 'special' relationship with their former colonies, par-

ticularly those in Africa.[21] This essentially asymmetric relationship has been institutionalized through the Yaoundé and Lomé Conventions, and since 2000, the Cotonou Agreement, and has entailed the combination of trade preferences and aid in one contractual relationship with the purported objective of facilitating development in the former European colonies. For instance, one of the principal provisions of all four Lomé Conventions was non-reciprocal trade preferences, which allowed more than 90 percent of African Caribbean and Pacific (ACP) exports, *predominantly primary commodities*, to enter the EC duty free.

The result of aid and preferential access to EC markets for SSA[22] primary commodities was that "Africa's trade patterns continued to reflect the influence of traditional links with the countries of western Europe".[23] Moreover, the schemes more or less predisposed ACP countries to an economic policy that favored the export of raw materials and encouraged them to specialize in the export of raw materials (Oloruntoba, 2016: 73). According to Fioramonti (2011) this approach of EU focusing on aid and trade preference (for primary commodities) given to African countries did not achieve its intended (official) results but mainly served the purpose of reinforcing pre-existing linkages between the former colonizers (mainly Belgium, France, Holland and the UK) and their ex-colonies (Oloruntoba, 2016: 3). Since the signing of the Cotonou Agreement in 2000 the relationship has been reframed as a 'strategic partnership', which intimately links development, trade and other allegedly 'mutual' concerns such as migration and security (Oloruntoba, 2016: 12). However, "in practice the main emphasis has remained on pushing developing countries to introduce liberalization reforms, remove trade barriers and espouse free market of goods and services, the very same issues that most emerging and poor economies have been fighting against in the multilateral context of the WTO negotiations." (Oloruntoba, 2016: 21).

The most illustrative example of asymmetric economic integration of African economies with those of Europe is the so-called Economic Partnership Agreements (EPAs) between EU and ACP countries. According to UNECA (2015a), these have been justified by the need to comply with WTO rules of reciprocity and non-discrimination; and hence although the EU is expected to immediately grant 100% DFQF[24] market access to its ACP counterparts, ACP countries are to progressively open their markets duty-free for 75–80 per cent of their imports from the EU (UNECA, 2015a: 155). However, this arrangement will not greatly improve Africa's access to the EU market (while it will significantly increases EU access to Africa's market) since African countries are already given large preferences on their exports to the EU market through the Everything But Arms Initiative for LDCs and Generalized System of Preferences for most middle-income countries (leaving just a few agricultural sectors still protected), the EU faces relatively high tariff barriers on nearly all its exports to Africa (UNECA, 2015a). Moreover, while the WTO regulations only covered trade in goods, the EPAs ended up also including trade in services, intellectual property rights and the so-called Singapore issues (Fioramonti, 2011: 21). Furthermore, EPAs are structured to make the ACP countries continue to specialize in the export of raw materials, while the European counterparts will be exporting manufactured products and services since many nontariff barriers that the EU inserted into the EPA effectively hinder export of manufactured products from ACP countries to the EU (Oloruntoba, 2016: 55).

The EPAs have also been designed and negotiated by EU in such a way that they would thwart intra-Africa trade and regional economic integration. According to a perceptive analysis by the former president of Tanzania, EPAs would discourage intra-Africa trade which is predominantly in manufactured products (and hence facilitates industrial development in the region) because across-the-board liberalization of the markets of African economic communities to the manufactured products of Europe would not only reverse whatever gains that were achieved in terms of developing a nascent industrial sectors in these economies but also "The EPA could in fact destroy our economic regional integration efforts...The pains EAC [East African Community] has taken to build a regional market may instead help serve EU's commercial interests by offering the EU one EAC market, rather than ensuring that market can be accessed by our own producers" (Mkepa, 2016). Simply put, EPAs are – by design and by default –*asymmetric* REI arrangements that negatively affect *symmetric* and *transformative* REI initiatives in SSA.

4.5. Case study 2: outward oriented (and poor) physical infrastructure, industrialization and REI in africa

Perhaps the most telling feature of wrongly specialized, wrongly integrated and outward-oriented economies of SSA is the direction and state of transport infrastructure. Like most features of these underdeveloped economies, this state of affairs has its roots in the colonial history and subsequent developments that re-enforced rather than reversed it.

According to Encyclopedia Britannica's entry about the continent (cited above), there were highly developed transport networks in many parts of Africa in precolonial times, and, during the colonial era that followed, these networks were restructured to penetrate into the interior from the seaports and, in the main, to serve the commercial and administrative needs of the colonial powers. Their fragmentation, which led to interregional links being but thinly developed, resulted from the juxtaposition of varied and difficult terrains, the economic artificiality of certain national frontiers, the lack of a developed intra-African trade, and the strong orientation of commodity trade with the administering countries (Gwilliam, 2011). As Gwilliam (2011) bluntly put it, "Colonialism was about the exploitation of natural resources. Colonial government administration was typically settled in a capital city, often a port, and had little concern for inland passenger transport. The infrastructure it developed was usually limited to whatever was deemed necessary for the export of minerals or agricultural products. Only the links between the port and the material source . . . were of prime interest. The result was that transport networks were extensive in linking ports and distant sources rather than intensive in giving good network coverage to the whole of the territory (Gwilliam, 2011: 3–4).

For instance, some historians have referred to the colonial railroad system as 'dendritic'- a leaf like system originating from the main outlets of international trade into the African interior with few if any links between the interior regions (Stein, 2000: 7). The extractive nature of colonialism in Africa meant that the very conception of the infrastructure was meant not to develop synergistic industrial development, nor to create and facilitate regional economic integration in the continent: "the roads and railways built in colonial times were primarily designed to transport minerals and other raw materials from the African interior to the continent's ports for shipping to Europe. They were not designed to join one part of the continent to another, and created a legacy that is still felt in the twenty-first century, with production and export of commodities geared towards the needs of the former colonial powers—not value addition (UNECA, 2013: 7).

[21] Articles 131 and 136 of the Treaty provide for the association of non-European countries and territories with which EEC member States have particular relations.
[22] SSA countries make up more than 60 percent of the ACP membership.
[23] Encyclopedia Britannica (https://www.britannica.com/place/Africa/Economy#ref418623)
[24] Duty-Free-Quota-Free

Just like the way most African governments were unable to reverse the other economic legacies of the colonial era and industrialize successfully, they have not been able to reverse the direction and extractive orientation of the transport infrastructure. This was not helped by the later national and international developments such as the Structural Adjustment Policies and the subsequent Washington Consensus liberal approaches which led to severe cuts in public spending leading to significant deterioration of transport infrastructure (Jomo, 2008: 10). The result is that, not only are transaction costs (transport and insurance costs) are very high in Africa but also are impediments to the growth of intra-African trade (UNCTAD, 2013: 53). 'Even today, trade volumes between adjacent countries are remarkably small. African railways are therefore closely linked to ports (in fact, much of Africa once had integrated port and railway organizations). Where railways traverse more than one country, freight rarely originates or terminates in the intermediate country or countries. . .' (Gwilliam, 2011: 84). To put it in figures, Africa's transport and insurance costs represent 30% of the total value of exports (compared with 8.6% for all developing countries) (UNECA, 2009); and shipping a car from Japan to Abidjan costs US$1 500 (including insurance); shipping that same car from Addis Ababa (Ethiopia) to Abidjan (Ivory Coast) would cost US$5 000 (Harzburg, 2011: 3)

The overall pessimistic picture is of a downward spiral in infrastructure supply. Wrong specialization and wrong direction of infrastructure due to colonialism and post-colonial policies leading to poor, unindustrialized economies which do not have sufficient resources to the change the direction of or develop and maintain infrastructure. Meanwhile, due to lack of focus on and effectiveness of domestic industrial policies, the proportion of manufacturing in GDP is low. Because of this, composition of external trade is low in manufactures. As a result, SSA economies could not trade much with each other. Since they are not each other's major customers, they do not have enough motivation to commit scarce resources to develop infrastructure that links them with their neighbors.

5. Concluding remarks

This paper set out to look into the linkages between the failure of SSA economies to industrialize and the failure of REI initiatives in the continent using an alternative theoretical framework that puts industrialization and development of manufacturing sector at the front and center of development policy. Subsequently, an attempt has been made to show that, with respect to REI in SSA, a major problem has been failure to facilitate the creation of a mutually reinforcing cycle of market expansion and industrialization where regional economic integration expands the geographical size of the market while industrialization generates better incomes and hence creates effective demand in the integrating economies. It was also shown how the colonial legacy of specialization in 'bad' economic activities, 'wrongly directed' infrastructure, and later developments that reinforced these wrong directions and economic orientations are some of the key reasons for the failure of REI in Africa. Failure to industrialize is, in important ways, the result of the negative effects of the *asymmetric* integration of the SSA economies with more developed economies thereby stifling *symmetric* REI within Africa – creating and re-enforcing a vicious cycle of colonial type economic integration with the developed world, lack of industrial development and low level of intra-regional trade and integration.

Therefore, we can conclude that if SSA economies are to achieve economic development, development of the manufacturing sector, high-value services and industrialization should be given utmost priority in terms of policy focus and resource allocation in each and every one of the economies. Moreover, the REI initiatives which have proliferated over the years need to be rethought in such a way that they re-enforce and catalyze the growth and development of manufacturing industries in each and every member of the initiatives. In other words, REI initiatives should be conceived and implemented as facilitators and amplifiers of domestic and regional industrialization strategies. Given the fact that almost all SSA economies are integrated with the economies of advanced economies with colonial-type import-export structures is a major obstacle on the way of transformative REI and industrialization in the continent, there is also a clear need to deliberately reverse the outcomes of neoliberal globalization in the continent and re-focus on inward looking industrialization – i.e. SSA countries need to introduce East Asian type, context-specific Import Substitution/Export Promotion policies and strategies – individually and collectively as part of REI initiatives (i.e. strategic integration rather than free-trade with advanced economies).

Thus, if REI is to serve the purpose of economic development in the continent, there is a need to go back to the original, post-colonial visions of economic integration that puts industrialization at the center stage, to look inwards and reverse the anti-developmental aspects of liberal engagements with the advanced economies. As part of the initiatives to reverse the colonial-type economic structure and integration, REI initiatives also need to focus on reversing colonial-type economic infrastructure and redirecting it towards serving the hinterland and facilitating REI.

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Paper III

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Chapter 8

Ethiopia's proactive 'economic diplomacy' and regional integration

Fantu Cheru and Zinabu Samaro Rekiso

ABSTRACT

Sixteen years have passed since the government of Ethiopia adopted the 2002 Foreign Affairs and National Security Policy, which emphasised 'economic diplomacy' as the cornerstone of its foreign policy. A central component of the new strategy has been regional integration with Ethiopia's neighbours in the Horn and Eastern Africa. During the ensuing years, however, the national, regional, and global political contexts have changed dramatically. For instance, Ethiopia is now seen as an attractive destination for labour-intensive manufacturing and the government continues to invest heavily in mega infrastructure and power generation projects to drive its industrial ambition. At the same time, however, the Ethiopian state faces a gathering storm of internal and external threats that could undermine its ambitious programme of economic transformation and regional integration. The aim of this chapter is, therefore, to assess the extent to which the emphasis on 'economic diplomacy' has helped the government achieve its stated goals of economic development, regional integration, and peace and stability in a region where state weakness, poor governance, and vulnerability to external pressures are endemic.

Key words: regional integration; economic diplomacy

Introduction

Until the early 1990s, weakened statehood, endemic poverty, and contested borders all negatively affected the capacity of successive Ethiopian regimes to engage the outside world strategically to advance Ethiopia's national interests. Specifically, the country's neighbours in the Horn of Africa were viewed with great suspicion and as a threat to Ethiopia's integrity. With the coming to power of the Ethiopian People's Revolutionary Democratic Front (EPRDF) in 1991, however, the determinants and decision-making processes behind Ethiopia's foreign and economic policy

changed dramatically, largely due to the changing political economy context at both domestic and global levels.

While the foreign policies of previous Ethiopian regimes were based on a "siege mentality" and were exclusively focused on external threats to the detriment of domestic ones, the EPRDF, by contrast, identified "poverty and undemocratic rule" as the greatest threats to Ethiopia's national security (FDRE 2002). The EPRDF sought to address these twin threats by embarking on a highly political state-building project aimed at transforming the economy and democratising Ethiopia's political order. It adopted a new constitution in 1995 that granted—at least on paper—the right to self-determination to Ethiopia's 90-plus nations and nationalities (MoFED 1993; Vaughan 2015; FDRE Constitution 1995).

In terms of its foreign policy, the EPRDF-led government gave primacy to "economic diplomacy" aimed at attracting foreign direct investment and external aid inflows to realise its radical economic transformation agenda (FDRE 2002; Tewelde and Parsad 2015). Indeed, Ethiopia since 2001 has emerged as one of the 'super-powers' of Africa—playing an important role in global and regional affairs and positioning itself as the best investment destination in Africa (Verhoeven 2015). The EPRDF has presided over an economy that has displayed double-digit GDP growth rates for more than a decade. The economic growth has largely been pro-poor, lifting millions of people out of poverty. The number of households with improved living standards as measured by electricity, piped water, and infrastructure doubled from 2000 to 2011 (MOFED 2013).

The EPRDF has also succeeded in providing unprecedented security and administrative control of the state's population and territory while playing a critical role in regional peace and security in the Horn of Africa. Economic growth and political stability have in turn increased Ethiopia's appeal as a political ally and economic partner to both emerging partners, such as China, Turkey, and India, and traditional Western development partners (Cheru 2016). In 2015, for example, Ethiopia received US$3.2 billion in investment from the total US$7.8 billion received by East Africa (UNCTAD 2017:35).

Ethiopian foreign and economic policy under the EPRDF: context and objectives

In the early 2000s, the Ethiopian government undertook a major review of the country's foreign and security policies and strategies against the background of dramatic changes that were taking

place in the country, the region, and the world at large. This major internal rethinking resulted in the publication of a comprehensive document, 'Foreign Affairs and National Security Policy and Strategy of Ethiopia', in 2002 (FDRE 2002).

The shift in foreign and development policy was an outcome of a confluence of internal and external factors. The first factor had to do with the regime's dissatisfaction with the poor track record of the neoliberal policies that it reluctantly followed between 1991 and 2005 due to pressures from key development partners. The second factor involved deep disagreement within the EPRDF over the conduct of the 1998 war with Eritrea and the political crisis this generated within the Tigray Peoples Liberation Front (TPLF)—the influential component of the EPRDF coalition—when the leadership of Prime Minister Meles was challenged (Clapham 2017). Once he and his allies had survived the leadership challenge and consolidated their power base, Meles was able to push through radical economic and foreign policy reforms unopposed.

The political crisis following the 2005 disputed national elections, when the opposition gained a significant number of parliamentary seats, provided the EPRDF with a third impetus for introducing far-reaching economic reforms to appease a population opposed to its rule. The EPRDF was forced to acknowledge that its socialist-oriented economic policy was not working and that a new course of action was needed to reorient the Ethiopian economy away from agriculture and towards industrialisation and value addition in agriculture. Subsequently, the first Growth and Transformation Plan (GTP1) put heavy emphasis on large-scale infrastructure investments (from roads, rail, and power generation) and investment in education, health, and other services to raise the productivity of the economy and in the process, improve the quality of life of citizens (MoFED 2010).

At the same time, the government reoriented Ethiopian foreign and security policy and aligned them to the overall development strategy of the country. The EPRDF redefined the concept of 'security threat' as 'poverty and undemocratic trends'. To address these twin threats, the 2002 Foreign Affairs and National Security Strategy emphasised 'economic diplomacy' to attract badly needed foreign investment and loans to transform the economy and to create jobs (FDRE 2002). The government particularly focused its economic diplomacy towards emerging countries, such as China, India, and Turkey. The strategy has paid off, as the government has been able to mobilise

huge amounts of infrastructure finance and to attract a sizeable number of manufacturing firms to locate in Ethiopia (Cheru 2016; MoFEC 2017).

Ethiopia and the Horn of Africa

Ethiopia's relations with its neighbours have been shaped not only by its internal social, economic, and political dynamics but also by the dynamics of the region which is fraught with conflicts and political instability (Clapham 2017; Keller 1987). This vast area—comprising Sudan, South Sudan, Ethiopia, Eritrea, Djibouti, Somalia, Kenya, and Uganda, home to about 240 million people—is linked not only by a shared history of conflict but also by a complex web of economic, social, and cultural ties. The incongruence between the legacy of colonial boundaries, ecological zones, ethnic overlap across borders, and cultural affinities peculiar to the region often means that disputes in any one country can have political and economic significance beyond their own local sphere (Cliff 1999; Healy 2007; Bereketeab 2013).

Moreover, the security challenges of terrorism and armed militias are intertwined in a web of various actors that have both regional and global dimensions (IGAD 2016:14; Healy 2007). China is the latest country to open a naval base in Djibouti. Turkey and the United Arab Emirates are also vying to have a foothold on the Red Sea Coast, highlighting the strategic importance of the Horn of Africa to competing global and regional powers (Hussein 2018). Cognizant of these complex geopolitical dynamics and domestic political instability, the Ethiopian government has been working tirelessly to strengthen regional integration and ensure peace and stability in the Horn of Africa. Towards this end, the country has deployed thousands of Ethiopian UN peacekeepers to the Abyi border region between Sudan and South Sudan, the African Union-led peacekeeping mission in Somalia (AMISOM), and the UN peacekeeping mission in South Sudan. The Ethiopian government believes that the task of tackling poverty and underdevelopment at home is intricately linked to the maintenance of peace and stability in the Horn of Africa region (Mehari 2017; IGAD 2016:46).

In the long term, however, Ethiopia's strategy for the Horn of Africa revolves around regional integration through energy, road, rail, and water infrastructure, connectivity, and trade, but very much on Ethiopian terms. The plan is to tie the region to Ethiopia by exporting electricity generated by dams on Ethiopian rivers and to facilitate cross-border trade by improving logistics, rail, and road transport connectivity. Besides mutual economic benefits, regional economic integration is

expected to provide a climate conducive to the maintenance of peace and stability in the region (Mulugeta 2016:63–87; Mehari 2017; Verhoeven 2015). Despite these ambitious goals by the Ethiopian government, neighbouring countries do not see Ethiopia in a positive light, and lingering historical animosities cannot be overcome overnight.

Regional economic integration as an economic and political imperative

Ethiopia is one of the few African countries that has taken a radical approach to strengthening economic integration with its neighbours by investing heavily in transport infrastructure, energy connectivity, and improved logistics to help unleash productive potential at the national and regional levels and create a larger regional market and trade interactions (MoFED 2010). Several studies have shown that high logistic and infrastructure costs are the key impediments to productive integration on the continent, disrupting supply- and value-chain linkages at the national, regional, and global levels (Foster et al. 2010; Ndulu 2006).

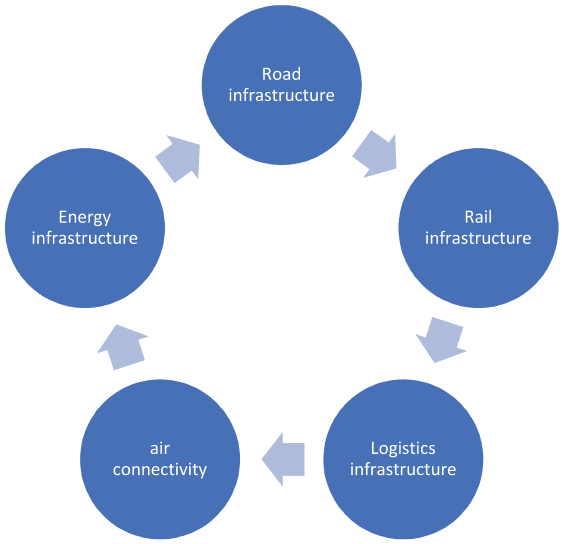
Infrastructure affects growth through two channels: directly through physical capital accumulation and indirectly through improvement in productivity. At a micro level, investment in infrastructure enhances private-sector activities by lowering the cost of production and opening new markets, presenting new production opportunities and trade. At the same time, infrastructure investment in power generation, water, sanitation, and housing improves the social wellbeing of citizens (Foster et al. 2010).

The first Growth and Transformation Plan (GTP1) accorded top priority to massive investment in critical infrastructure, such as roads, rail networks, telecommunications, hydroelectric power, wind and thermal energy, and irrigation projects (Figure 7.1). The key targets included the building of 10,000 miles of roads and a 1,500-mile rail network; the quadrupling of power generation coupled with 82,000 miles of power lines; increasing the number of mobile telephone users from 7 million to 40 million and internet service subscribers from 200,000 to 3.7 million; and the establishment of four industrial cluster zones. The cost of these investments was estimated at US$57 billion over the planned period (MOFED 2010: 33–46). In 2013 alone, the government planned to spend US$7.8 billion dollars on mega projects such as electric power, roads, rail, and public housing.

Moreover, the government has made great efforts to build an efficient logistic service sector for the country's importers, exporters, and investors by reducing bottlenecks in the shipment of goods,

and cutting transit time and costs. It has invested heavily to enhance the capacity of the Ethiopian Shipping and Logistics Service Enterprise (ESLSE) through the purchase of additional ships and heavy trucks, and by improving sea and dry dock facilities to reduce transit time and costs to private investors (MOFEC 2017: 8).

Figure 8.1: Transformation enablers in the GTP



The massive investments in critical infrastructure are expected to facilitate intra-African trade and regional value chains, leading to Africa's eventual entry into global value chains. The value-chain linkage would then facilitate accelerated industrial development among the IGAD member countries, namely Djibouti, Sudan, South Sudan, Somalia, and Kenya.

For a landlocked country such as Ethiopia, the issue of infrastructure connectivity involves a different dimension above and beyond the concern for economic growth. Ensuring Ethiopia's access to the sea is a matter of national security. With the independence of Eritrea in 1993, Ethiopia lost the use of the ports of Assab and Massawa and effectively became the largest and most populous landlocked country in the world. Currently, almost 95 per cent of Ethiopia's export-

import trade is handled through the ports of Djibouti, a situation that Ethiopia hopes to change by seeking additional alternative access routes in the neighbouring countries. The need to diversify its access to the sea is one of the major motivating factors for the Ethiopian government to invest heavily in infrastructure and energy connectivity and to develop friendly relations with Sudan, Somalia, and Kenya.

Ethiopia's proactive 'economic diplomacy': results and performance

Economic diplomacy is the process by which countries engage with the outside world, to maximise their national gain in all fields of activity, including trade, investment, and other forms of economically beneficial exchanges (Rose 2007:22–38; Rana,2004). With the adoption of the Foreign Affairs and National Security Policy in 2002, the Ministry of Foreign Affairs (MoFA) prepared a five-year strategic plan and conducted an extensive business process re-engineering (BPR) study of most of the ministry's core functions. Among the core functions of the MoFA that have undergone re-engineering are investment, trade, and tourism promotion services (FDRE 2012). The exercise resulted in the publication of the 'Foreign Trade Promotion Manual for Ethiopian Diplomatic Missions', with the aim of providing practical guidelines to embassy staff on how to carry out trade promotion activities (MoFA 2007). Accordingly, the focus of Ethiopia's economic diplomacy is on the following:

- attracting direct foreign investment to the country using different communication methods;
- lobbying for facilitating the expansion of the market horizons of the nation's export products globally;
- luring as many foreign tourists as possible to visit the country;
- soliciting development assistance consisting of financial and technical support through bilateral and multilateral cooperation.

The economic diplomacy and strategy focuses on attracting labour-intensive rather than capital-intensive investments capable of generating as many jobs as possible, particularly given the high level of youth unemployment. In addition, foreign investments which use agricultural resources as raw materials, and process and produce industrial products by adding value are given prime attention (FDRE, 2012: 25).

As shown in Table 8.1, Ethiopian missions abroad, in collaboration with the Ethiopian Investment Commission (EIC), have been very active since 2007 in promoting Ethiopia as the best investment destination in Africa (MoFA 2015:11). These intense economic diplomatic activities have enhanced the country's role in regional and international fora. Moreover, Ethiopia's efforts to attract FDI have been strengthened by a favourable external environment for FDI, the availability of cheap labour in the country, Ethiopia's improved access to US and EU markets, growing domestic demand, and improved economic infrastructure.

Table 8.1: Performance overview of MoFA and Ethiopian diplomatic missions in attracting FDI, 2010/11–2014/15

Budget year	FDI recruitment plan	Actual number of investors recruited	Performance (%)
2010/11	250	324	129.60
2011/12	326	360	110.43
2012/13	355	368	103.66
2013/14	1005	1001	99.60
2014/15	1227	1347	109.78
Total	3163	3400	107.49

Source: MoFA 2015:11

In terms of the regional distribution of investment flow to Ethiopia (Table 7.2), Europe and Asia remain the most important source of FDI, followed by the Middle East and North America. Africa plays a marginal role although the number of investors that have made pre-investment visits to Ethiopia is increasing.

Table 8.2: Performance of pre-investment facilitation by MoFA and Ethiopian diplomatic missions, 2014/15

Region	Investment recruitment plan	Investors conducting pre-investment visits	Performance (%)
Europe	470	470	100
North & South America	102	82	80.39
Africa	156	197	126.28
Asia & Oceania	349	436	124.93
Middle East	150	162	108
Total	1227	1347	

Source: MoFA, 2015: 9

Table 8.3 shows that the foreign companies recruited by Ethiopian diplomatic missions represent almost all sectors. Manufacturing, agriculture, energy and power, and construction have attracted the most investors.

Table 8.3: Sectoral composition of companies recruited and conducted pre-investment visits, 2014–15

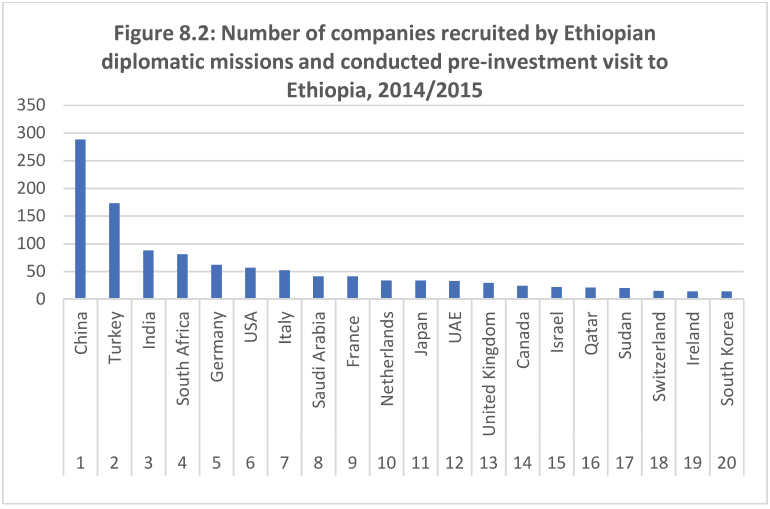
Sectors	Number of companies recruited
Manufacturing industry	477
Agriculture	135
Agro-processing	74
Construction	130
Infrastructure and logistics	25
Mining	50
Energy and power	114
Hotels and tourism	25
Education	8
Investment project financing	5
Consultancy and engineering	19
Health	14
Information and communications technology (ICT)	45
Multi-sectors investors	226
Total	1347

SOURCE: MoFA 2015:7

Figure 8.2 shows that most of the companies recruited by Ethiopian diplomatic missions are from East Asia, Europe, and the Middle East. China, Turkey, and India are the three most important investors in Ethiopia. This not only reflects the focus of Ethiopia's economic diplomacy efforts but also how these economies have globally become important sources of cheap labour-seeking FDI. There is a clear recognition within the government of the increasing trend for labour-intensive manufacturing to try to move to countries with abundant supply of cheap labour and a conducive business environment. It is not, therefore, surprising that the Ethiopian government has focused its strategy on attracting FDI from China, India, and Turkey where labour costs are rising. This is a positive trend but its effect on regional integration is mixed (MoFA 2015: 9).

In addition to the efforts of the Ministry of Foreign Affairs, the Ethiopian Chamber of Commerce and Sectoral Association have been active in organising business-to-business meetings with their foreign counterparts and providing information about the considerable business opportunities that

Ethiopia offers. In the fiscal year 2016–17, seven business fora took place with investors from Spain, Saudi Arabia, China, Poland, Morocco, America, and Germany (MOFEC 2017:11–12). It is thought that business fora like these arranged by the private-sector associations reinforce government efforts to build confidence and change the negative perceptions created following the recent unrest in some parts of the country.



Source: MoFA 2015:6

In sum, the efforts of the government of Ethiopia to promote economic diplomacy and business-to-business conclaves have been shown to produce tangible results. Renowned textile and garment companies from the USA, Hong Kong, India, China, and Sri Lanka have already launched operations in the Hawassa Industrial Park. Ethiopia's proximity to the Middle East, European, and Asian markets, its large population, and its preferential trade access to the USA under AGOA and to Europe under the EU's 'Everything but Arms' arrangements, are important reasons why foreign investors are flocking to the country (MOFEC 2017). To remain ahead of the game, however, the government must continue to improve the business environment by reducing bureaucracy and red tape, ensuring policy stability and predictability, and developing upstream supply chains, such as cotton for textiles.

Economic integration with IGAD countries

This section analyses the trends, performance, and current state of Ethiopia's economic integration with the countries of the IGAD sub-region, and evaluates the overall effectiveness of the economic diplomacy strategy vis-à-vis Ethiopia's neighbours. This is done using trade, investment, transport infrastructure, and energy as vectors of integration.

Trade relations

Ethiopia's external trade is very much dominated by unprocessed primary commodities, while its imports are predominantly manufactured products. Until recent years, a policy of export-led agriculture was encouraged to generate the foreign exchange that the country needs to cover the cost of its essential imports (Ministry of Foreign Affairs 2007: 12). For example, during the period 2009/10–2015/16, the country obtained on average 89 per cent of its export earnings from unprocessed primary products.[1]

Table 7.4 shows that almost 83 per cent of Ethiopia's exports are to Europe, North America, the Middle East, and Asia. About 20.8 per cent of Ethiopia's export went to Africa, mainly Somalia (55.8 per cent), Djibouti (21.5 per cent), Sudan (12 per cent), Kenya (4.9 per cent) and Egypt (3.6 per cent), which altogether accounted for 97.8 per cent of the total exports to Africa during 2015–16. By 2016, the value of Ethiopian exports to these countries had increased substantially in comparison to the early 2000s: in current US$ Kenya (30.8 million), Djibouti (109.2 million), Uganda (290,000), Somalia (271.2 million), Sudan (44.5 million) (National Bank of Ethiopia 2017: 63). Given the similarities in the structure of African economies, with heavy dependence on unprocessed primary products and a low level of industrialisation, it is not surprising that Ethiopia's trade with Africa remains low.

Table 8.4: Ethiopia's top ten export and import destinations, 2016

Country	Exports (US$)	Export (%)	Country	Imports (US$)	Import (%)

[1] Computed based on *Annual Report of National Bank of Ethiopia*, various years.

United States	169,446,868	9.83	China	6,095,987,45	31.6
Saudi Arabia	167,111,227	9.69	United States	1,681,886,324	8.8
Germany	148,318,495	8.6	India	1,425,330,717	7.45
Switzerland	130,810,096	7.5	Kuwait	1,062,332,437	5.56
China	88,693,600	5.14	Japan	797,179,318	4.17
UAE	86,025,777	4.99	Italy	764,671,935	4.0
Pakistan	75,996,657	4.41	Turkey	684,801,787	3.58
Japan	59,842,063	3.47	Sweden	508,846,480	2.66
Italy	58,828, 850	3.41	UAE	473,132,883	2.47
Belgium	53,425,172	3.1	Bahrain	430,231,011	2.25

Source: *UN Comtrade data (2016)*

Table 8.5 shows Ethiopia's import and export trade with the IGAD. While Ethiopia's exports to Djibouti, Sudan, and Somalia have shown very dramatic increases in recent years, they consist predominantly of a single commodity, *chat,* which is widely consumed as part of cultural practices in the region. Meanwhile, Kenya and Uganda have not been prominent destinations for Ethiopia's exports since the two countries are also primary commodity exporters, and their external trade is more oriented towards the developed economies and the East African Community.

Table 8.5: Import/export trade with the IGAD (2016)

Partner	Exports (US$)	Imports (US$)	Balance
Sudan	48,835,378	94,069,143	-45,230
Djibouti	44,123,031	707	44,120
Kenya	32,464,539	37,715,211	-5,250,672

Uganda	865,209	371,492	493,267
Somalia	7,678,024	2,416,341	5,261,683

Source: Comtrade data

On the import side, the most important source of Ethiopian imports is the Middle East and Asia. During the budget year 2015–16, for example, about 62.7 per cent of Ethiopian merchandise imports originated from Asia, 25.1 per cent from Europe, 8.3 per cent America (National Bank of Ethiopia 2017: 64). The major import origins in Asia were China (53.0 per cent), India (12.0 per cent), Japan (6.7 per cent), Kuwait (5.3 per cent), United Arab Emirates (4.4 per cent), Saudi Arabia (3.6 per cent), Indonesia (3.4 per cent), Malaysia (2.4 per cent), and South Korea (2.1 per cent) (National Bank of Ethiopia, 2017:64). Africa accounted for a mere 3.9 per cent of Ethiopia's total imports during the same period and the major countries of origin were Egypt (28.5 per cent), South Africa (27.6 per cent), Morocco (26.7 per cent), Sudan (6.5 per cent), and Kenya (5.2 per cent) (National Bank of Ethiopia 2017: 65). These five African countries have relatively better manufacturing bases from which Ethiopia can source its imports. On the other hand, countries such as Djibouti, Somalia, and Uganda have been insignificant suppliers of Ethiopia's import needs.[2]

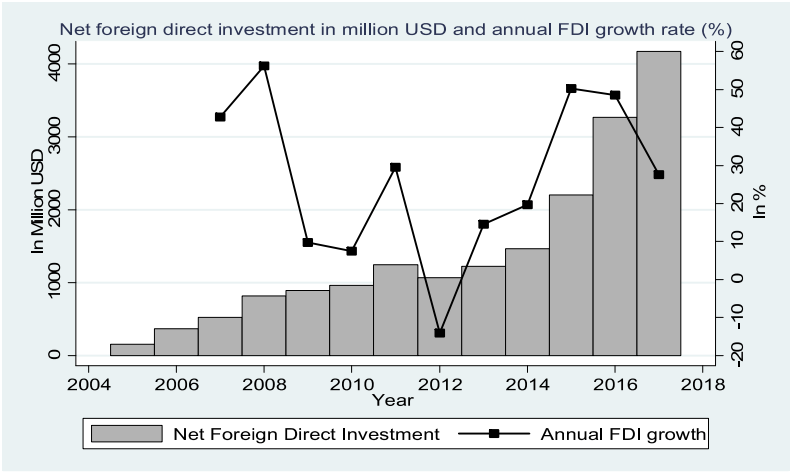
Investment relations

The EPRDF-led government of Ethiopia has been following a mixed approach to foreign direct investment (FDI) in general. On the one hand it has been relentlessly pursuing policies, strategies, and incentive schemes that are aimed at attracting foreign investment with a view to complementing the domestic private sector and state-owned enterprises, and to securing technology, know-how, capital, and access to markets of advanced economies which it believes can help to achieve its export-driven foreign trade objectives. In this sense, it can be said the government has been one of the most liberal to FDI inflows into the country. However, on the other hand, it has been pursuing one of the most illiberal investment policies in Africa; most of the service sector in Ethiopia (such as retail and merchandise trade, telecoms, banking, and finance)

[2] Average value of imports between 2002 and 2016 (thousands US$): Djibouti 430, Uganda 570, and Somalia 212.

is off limits to foreign investors despite intense pressure from the Bretton Woods institutions and bilateral donors.

Figure 8.3: Net FDI, US$ millions, and annual FDI growth rate (%)



Source: National Bank of Ethiopia

Despite the government's mixed policy on FDI, Ethiopia has become increasingly attractive for market- and resource-seeking FDI from advanced and emerging economies. For instance, FDI stock, which amounted to US$941 million in 2000, increased to US$4.206 billion in 2010 and to US$13.7 billion in 2016 (UNCTAD 2017: 227). According to Figure 7.3, FDI inflows have been rising constantly since 2012, even when FDI was declining in many other least developed countries (LDCs). To put this in perspective, East Africa received US$7.1 billion in FDI in 2016, of which Ethiopia alone received US$3.2 billion (45%), propelled by investments in infrastructure and manufacturing which helped it become the second-largest LDC host economy, up from the fifth position in 2015 (UNCTAD 2017: 46, 81). According to data from the Ethiopian Investment Commission, Ethiopia attracted FDI worth $4.17 billion in the 2016–17 fiscal year despite heightened political tensions in the country since August 2015 (MOFEC 2017:13).

On the other hand, FDI inflows into Ethiopia from the IGAD member countries have been minuscule both in terms of the total capital invested and the number of licensed projects. For instance, data from the Ethiopian Investment Agency show a total of 564 licensed projects in 2017: Kenya (114), Sudan (423), Djibouti (18), and Somalia (9). Table 8.6 shows that, while 187 projects are in pre-implementation stage, another 138 projects are under implementation. Of the four countries studied, Djibouti and Somalia have the lowest level of investment in Ethiopia. The database contains no FDI projects from Uganda at all.[3]

Table 8.6: Investment to Ethiopia from selected IGAD countries

	Kenya	Sudan	Djibouti	Somalia
Total projects	114	423	18	9
Manufacturing	68	150	8	2
Real estate	22	91	1	2
Pre-implementation	17	160	9	1
Under implementation	28	104	5	1
Operating	69	159	4	7
Capital in birr, thousands	2,719,886	1,281,213	154,400	324,250

Source: Ethiopian Investment Commission

Of the four IGAD countries, Sudan is emerging as an important investor in the Ethiopian economy. Out of a total of 423 licensed projects in 2017 from Sudan, 150 are in the manufacturing sector while another 91 are in real estate. Moreover, 159 projects are in operation, 104 under implementation, and 160 projects in pre-implementation stage. In fact, based on information from the Sudanese Investors Society in Addis Ababa, the Economist Intelligence Unit reported in 2014 that Sudanese capital investment in Ethiopia totalled US$2.4bn, making Sudan the second-largest investor in Ethiopia after China.

The large influx of Sudanese investment in Ethiopia had to do with the loss of Sudan's traditional source of income from oil which ended with the independence of South Sudan in 2011. To offset this loss, the government of Sudan began to cultivate closer relations with Ethiopia, which has embarked on huge hydropower and infrastructure projects to expand its own economic relations

[3] Ethiopian Investment Commission (2017); investment data on Somalia, Sudan, Kenya, Uganda, and Djibouti provided by the commission in November 2017.

with the neighbouring countries in line with the tenets and objectives of the Foreign Affairs and Security Policy. This commitment has been further strengthened by the long-standing no-war, no-peace situation with Eritrea which has severely restricted Ethiopia's accesses to sea ports, and by the increasingly visible tendency of Sudan to distance itself from its 'big brother' in the north (Egypt) and incline towards the main source of the Nile waters (Ethiopia) over the hydro-politics of the Nile.

In the case of investment flow from Kenya to Ethiopia, there exists complementarity between the two economies given the relative advancement and size of the Kenyan economy and its well-developed manufacturing sector. Data from Ethiopian Investment Agency indicate that a total of 114 Kenyan investment projects were registered between 1994 and 2017, with a registered capital of around 2.719 billion birr (~US$100.332 million at exchange rate of November 2017). Of these, only 28 had become operational by September 2017. An interesting feature of Ethiopia's investment relations with Kenya is that, due to the comparative advantage Kenya has developed in service sectors such as banking, finance, telecoms, and wholesale and retail trade, there has been sustained interest from the Kenyan side in entering these sectors in Ethiopia.[4] However, the Ethiopian government has had justifiable reasons for its reluctance to allow Kenyan investment in these sectors to date.

It is safe to conclude that economic exchanges between Ethiopia and its neighbours are growing, albeit slowly. This is bound to change with increased road and electricity connectivity. While Ethiopia's efforts to promote economic integration in the Horn of Africa are commendable, a similar level of commitment is required from the other members of IGAD if regional economic integration is to materialise in the long term.

Transport infrastructure and services

Given colonial and post-colonial legacies, transport infrastructure in Africa has not only been underdeveloped but also has not been geared towards linking African economies with each other; rather, it is oriented towards export of primary commodities to and import of manufactured

[4] See for instance "Ethiopia, Kenya Integration: Together, But with Misaligned Priorities", in *Addis Fortune, Vol. 14, No. 724, 16 March 2014.*

products from developed countries (Zinabu 2017: 96–97). Therefore, any efforts to genuinely integrate African economies requires this outward orientation to be reversed through development of good-quality, efficient transport infrastructure networks and services in such a way as to link production centres and distribution hubs across the continent.

As a landlocked country, Ethiopia has invested heavily over the past decade in transport infrastructure connectivity across the country and with its immediate neighbours to improve economic productivity and raise living standards. Since the launch of the Road Sector Development Programme I in 1997, the Ethiopian Roads Authority has consistently enjoyed the largest allocation of the national budget (Ethiopian Road Authority 2014: 9). Between 2010 and 2015, for example, total road network increased from 50,000km to more than 110,000km and is planned to double to 220,000km by 2019–20 during the Growth and Transformation Plan II implementation period (MoFEC 2017:5). As of now, the country has good road linkages with Sudan, Kenya, and Somaliland, whereas the road linking it with South Sudan is complete on the Ethiopian side but not developed on the South Sudanese side of the border (Mehari 2017:28).

In addition to road linkages, the government has been investing heavily in the development of railways aimed at linking the country to the world market by ensuring seamless access to one or several sea ports in the Horn and East Africa. The primary port for Ethiopia is Djibouti although there are plans to connect to the port of Berbera (Somalia), Port Sudan to the north, and with the ports of Lamu and Mombasa in Kenya. For instance, the Growth and Transformation Plan II (2015/16–2019/20) includes railway infrastructure development as one of its top priorities with a plan to complete development of 2,782km of rail network which would reach the borders with Djibouti, Kenya (Moyale), and South Sudan (Dima). It also includes preliminary plans that would extend the rail links with Sudan (Metema) and Somalia (MoFEC 2015: 136). So far, only the Ethio-Djibouti railway project, extending for 758km at a cost of around US$4.5 billion (70 per cent over the original estimated cost), has been completed.

The success of regional integration efforts through rail linkages largely depends on Ethiopia's ability to secure the necessary project financing. Several auxiliary railway extensions into neighbouring countries, namely Kenya, South Sudan, and Sudan, have been planned, but securing the necessary financing has been difficult. With the mounting debt of the Ethiopian Railways

Corporation (ERC), which in 2016 stood at US$4.7 billion (or 6 per cent of Ethiopia's GDP), creditors are unwilling to enter project financing, particularly in the face of declining export earnings. Consequently, the government announced in July 2017 the cancellation of any new railway project until new ways of financing, such as public–private partnerships, are found. The effectiveness of this strategy also depends on the willingness and ability of the neighbouring countries to extend, maintain, and efficiently run the rail and road networks within their borders.

Air transport is one of the areas where Ethiopia has recorded outstanding success, particularly in recent years. For consecutive years since 2001, Ethiopian Airlines, which was founded in 1945 and is a state-owned enterprise, has been registering rapid growth averaging 25 per cent annually. The airline has distinguished itself as the largest and most profitable airline group in Africa, commanding the lion's share of pan-African passenger and cargo network and now serving more than 90 international destinations. As part of its 2025 vision, the airline intends to provide extensive intra-Africa networks, and extensive and reliable air linkages for African economies with the rest of the world (Ethiopian Airlines 2016).

Two points are worth raising with respect to Ethiopia's relentless efforts to achieve economic integration with neighbouring countries through transport networks and services. First, the effectiveness of these investments largely depends on the political, economic, and security situation in those countries. For instance, the continued political instability in South Sudan and Somalia significantly reduces the economic usefulness and effectiveness of any road and rail linkages with these countries. Second, Ethiopia's efforts to build economic infrastructure linking it with neighbouring countries have a lot to do with attempts to find alternative access to seaports. Ethiopia's over-reliance on Djibouti is costly. Ethiopia reportedly spends as much as US$1.2 billion a year for the use of the ports of Djibouti (Mehari 2017: 28). Besides the high cost, the country faces frequent and serious uncertainties, administrative tussles, and disagreements over costs, fees, and taxation from the Djiboutian side (Styan 2013:3,7). In the long run, however, finding amicable solutions to the Ethio-Eritrean conflict could pave the way for Ethiopia to have access to the Eritrean ports of Massawa and Assab that are natural and convenient alternative outlets to the sea.

Energy and transboundary water resources

Ethiopia has substantial potential for generation of renewable energy, with its hydroelectric potential of 45,000MW sufficient to meet most of sub-Saharan Africa's current demand. Within Africa, Ethiopia's green energy potential is surpassed only by that of Democratic Republic of Congo (Verhoeven 2015: 5). However, this potential remained untapped until recently: power generation capacity in the national grid stood at 4,254MW in 2017.

In recent years, however, the government has been heavily investing in energy projects including in three hydro-dam projects on the Gilgel Gibe (fourth and fifth dams are in the works) and the Grand Ethiopian Renaissance Dam (with the capacity to generate more than 6,000MW) on the main tributary of the Nile planned to begin power generation in 2018. While the primary focus of these investments has been on meeting domestic demand, since 2014, however, the government has turned its focus towards the sale of excess electricity to neighbouring countries to generate badly needed foreign exchange (Table 7.7). Projections show that Ethiopia's electricity generation potential is such that even if current consumption levels were to triple or quadruple, there would still be ample scope to export power (Verhoeven 2011: 6).

Table 8.7: Export of energy to neighbouring countries (in GWh)

Country	2012–13	2013–14	2014–15	2015–16	2016–17
Djibouti	386.14	267.39	379.15	271.53	492.05
Sudan	175.31	340.41	381.27	427.02	–

Source: Ethiopian Electric Power

The demand for Ethiopia's electricity is very high and growing fast, both domestically and among neighbouring countries. If we consider domestic demand, between 2002 and 2008 demand for electricity grew on average by 17 per cent annually and this growth is projected to rise to almost 25 per cent annually (Verhoeven 2011: 5). With respect to international demand, Ethiopia has cross-border electricity connection with Sudan and Djibouti at 230kV level, and there is power flow of up to 250MW to Sudan and up to 90MW with Djibouti (Ministry of Water, Irrigation and Electricity 2017: 11). The Ethiopian government also has standing agreements to export electricity

to Uganda, Tanzania, Burundi, and Rwanda with Ethiopia–Kenya interconnection of 500kV capacity and flow of up to 2,000MW expected to be completed by 2019 (Verhoeven 2011:6). The existence of a lucrative demand for electricity in the neighbouring countries, therefore, offers a good opportunity for Ethiopia to capitalise on its ample energy generation potential.

Beyond this obvious economic logic, one can mention three other strategic motivating factors for the ambitious investment of the Ethiopian government in the export of electricity. The first is the need for closer and friendly ties with strategically important neighbours to ease the economic costs associated with being a landlocked country. The second strategic motive is to create an additional source of precious hard currency which Ethiopia needs and to ease its balance-of-payment problems. The third strategic motive is related to Ethiopia's desire to develop and maintain a strong alliance with Nile basin countries to counter the dominance of Egypt in the hydro-politics of the Nile and ensure fair and equitable utilisation of the Nile water resources. In other words, Ethiopia wants to entice and commit these countries into supporting its position with respect to the Nile waters by offering them cheap and affordable electricity.

Table 8.8: Ethiopia's performance in the Africa Regional Integration Index, 2016

	Integration dimension	Ethiopia's score vs. COMESA members	COMESA Average Integration Score	Ethiopia's integration rank in COMESA	Ethiopia's score vs. IGAD members	IGAD average integration score	Ethiopia's rank in IGAD
1	Trade integration score	0.185	0.572	18/19	0.277	0.505	6/7
2	Regional infrastructure integration score	0.402	0.439	14/19	0.577	0.630	6/8
3	Productive integration	0.344	0.452	16/19	0.400	0.434	4/8
4	Free movement of people	0.074	0.268	16/19	0.700	0.454	4/8
5	Financial and macroeconomic integration	0.162	0.343	17/19	0.168	0.221	5/7
	Overall regional integration score	**0.233**	**0.542**	**19/19**	**0.424**	**0.531**	**5/6**

Source: Compiled based on 'Africa Regional Integration Index Report 2016' *(*AU, AfDB and UNECA, 2016)

Overall, Ethiopia's performance in the African Regional Integration Index has been mixed. Table 7.8 shows that, within the IGAD sub-regional block, Ethiopia ranked fifth out of six member countries that were included in the calculation of the overall index. Out of the five integration dimensions, Ethiopia has scored above the IGAD average only with respect to free movement of people and productive integration. The same cannot be said when it comes to Ethiopia's role in the Common Market for East and Southern Africa (COMESA). Within the COMESA regional economic community, Ethiopia is ranked 19th out of 19 members, indicating that it is the least integrated country within the block with respect to the five dimensions of integration index (AU/AfDB/UNECA 2016). These results suggest that Ethiopia has a long way to go before it becomes a key driver of regional integration in the Horn and Eastern Africa.

Conclusions

In this chapter, we have examined Ethiopia's 'economic diplomacy' to promote investment and trade with the rest of the world and with its IGAD neighbours. The empirical evidence shows that, by investing heavily in infrastructure and energy, Ethiopia has successfully positioned itself as an attractive investment destination to companies from China, Turkey, India, and other emerging economies. Three important factors play in Ethiopia's favour: the availability of cheap labour; potential for cheap energy; and Ethiopia's preferential access to the EU and US markets, which foreign investors want to take advantage of (MoFEC 2017).

On the other hand, economic diplomacy towards the neighbours, apart from Djibouti and Sudan, has not produced substantial results. Part of the reason for the low level of economic exchange with the neighbouring countries has to do with the similarities in the structure of their economies. While success in developing the manufacturing sector in Ethiopia can potentially lead to increased intra-Africa trade in the future, the fact remains that most of the FDI projects in Ethiopia aim to produce products destined for advanced economies, with little spillover effect to the region.

The government's current approach to trade and investment promotion could be significantly enhanced by systematically involving many relevant government and non-government actors who might possess critical knowledge and information on trade and investment promotion. While

export promotion can include activities such as visits by business delegations, arranging buyers-and-sellers meets, FDI mobilisation involves sensitising potential foreign investors to the opportunities in the home country, and thereafter taking targeted promotions. This means that institutions assigned for export promotion must work side by side with the agency charged with the mobilisation of foreign direct investment. Such promotions must also be done in consultation with domestic business associations and individual enterprises.

Moreover, economic diplomacy efforts on their own are meaningless unless the necessary macroeconomic policy conditions to promote trade and investment are already in place (Kruger 1990). Policy misalignment on many fronts—such as tariff and non-tariff barriers; investment protection; shipping and transport-related challenges; taxation and repatriation of profits—can cause the best-thought economic diplomacy efforts to become undone (Lederman et al. 2006). In addition, entry into foreign markets requires a good knowledge of foreign legislation, cultural differences, and local preferences. This will inevitably involve the need to strengthen knowledge and capacity in trade and investment promotion within the Ministry of Foreign Affairs.

In the final analysis, however, Ethiopia's success in attracting investments and promoting regional economic integration with its neighbours will largely depend on the government's ability to find a lasting solution to the internal political crisis and long-standing political conflicts with those neighbours. These problems are compounded by increasing meddling from the Middle East and the Gulf States, particularly from Egypt, Saudi Arabia, and the United Arab Emirates (UAE) in the regional politics of the Horn of Africa. These Middle Eastern actors are also joined by the United States, China, and Russia, who are increasing their already active presence in the sub-region (Clapham 2017; Hussein 2018). While the background to the conflicts with Sudan, Somalia, and Eritrea are different from one another, trying to address them requires Ethiopia to take a broader perspective for the region and avoid being perceived by the neighbours as a rising regional hegemon. In terms of priority, resolving the political stalemate with Eritrea and Somalia should be top on the list of Ethiopia's regional agenda. The status quo of 'no war, no peace' with Eritrea has not produced tangible results. The Ethiopian government must seek an alternative approach that will produce permanent peace between the two countries. This will pave the way for a much closer economic relationship between Eritrea and Ethiopia, with the current idle ports of Assab and Massawa potentially becoming Ethiopia's main gateway to the world.

With respect to Somalia, a more cautious approach will be needed given the historical animosity of Somalis towards Ethiopia. Ethiopia's desire to have access to the port of Berbera in the breakaway republic of Somaliland is unlikely to be received positively by the Somalia Federal Government in Mogadishu. In fact, in early March 2018, Somalia's lower house of parliament voted to nullify a port investment deal between DP World, Ethiopia, and the autonomous region of Somaliland with a landslide 168 votes out of 170. The agreement, announced on 1 March 2018, would have given landlocked Ethiopia a 19 per cent stake in the port of Berbera, which is being developed by Dubai's DP World under a 30-year concession agreement.[5] The port deal, which was concluded without consultation with the federal government in Mogadishu, was viewed as a deliberate violation of the sovereignty of Somalia by the government of Ethiopia.

On the other hand, Ethiopia's relation with Sudan and South Sudan is less problematic. While Ethiopia has been able to draw Sudan onto its side in the conflict with Egypt over the use of the Nile waters, the South Sudanese political crisis has placed a new burden on Ethiopia, with the latter now hosting over one million refugees inside its borders. Plans to export electricity and increase cross-border trade between the two countries will remain constrained if the political crisis in South Sudan continues. In short, the overall political situation in the Horn of Africa is not conducive for the development of a viable regional integration despite Ethiopia's effort to the contrary.

[5] https://www.middleeastmonitor.com/20180305-somalia-rejects-uaes-port-deal

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Paper IV

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Chapter 25

Education and economic development in Ethiopia, 1991–2017

Zinabu Samaro Rekiso

Abstract

This chapter critically examines the major achievements and challenges of the education sector in Ethiopia between 1991 and 2017 from the perspective of long-term economic development and structural transformation. The chapter finds that Ethiopia has achieved enormous success in terms of increasing access to all levels of education throughout the country but the achievement has been at the cost of a vicious cycle of low education quality. In addition, the chapter argues that failure to significantly change the productive structure of the economy has resulted in persistently high levels of unemployment, underemployment, and brain drain of the better educated human resources of the country. The chapter concludes that there is a need for synergistic, dynamic, context-specific and comprehensive policies and strategies aimed at progressively moving the Ethiopian economy away from its current specialisation in nature-intensive, low-skill, low-knowledge, low-technology economic activities towards 'mind-intensive', higher-skill and technology-intensive economic activities.

Key Words: education, economic development, structural transformation, education quality, unemployment, underemployment, brain drain

Introduction

There is a long-standing consensus on the importance of education for economic development among scholars and within development policy circles. For instance, according to human capital theory, there is a strong link between investment in education and higher productivity and wages for individuals at the micro level and a country's economic growth at the macro level. Consequently, there has been strong emphasis on the importance of investment in human capital, particularly education (Krasniqi and Topxhiu

2016). However, there is hardly any literature that looks at the effect of the productive structure of the economy on the quality, effectiveness, and external efficiency of education in a developing economy.

This chapter critically examines the achievements and challenges of the education sector in Ethiopia from the perspective of long-term economic development and structural transformation. Specifically, the chapter critically examines two systemic challenges that have faced the education sector in the country since 1991: education quality and its external efficiency. The analysis points out that the exclusive focus on investment in education without sufficient attention to changing the productive structure of the economy has resulted in a vicious cycle of low-quality education, persistently high levels of unemployment, underemployment and brain drain of the better educated human resources of the country.

The chapter is organised as follows. First, the theoretical literature and approach that will be employed are reviewed. Policies, strategies, programmes and the performance of the education sectors of Ethiopia over the past quarter century are reviewed. Next is an analysis of the persistent cycle of low-quality education in Ethiopia, and an attempt to establish the linkages between productive structure of the economy, quality of education, and its external efficiency and effectiveness. The final section presents concluding remarks.

Education and economic development: conceptual and theoretical framework

In the standard economics literature, emphasis on the role of education and human development in economic growth started with Theodore Schultz's inaugural speech at the 1960 Annual Meeting of the American Economic Association (Schultz 1961). Schultz pointed out that human capital comprises skills, knowledge, and abilities and argues that maximising it enables individuals to maximise earnings, companies to maximise profits, and nations to maximise wealth. He also argued that differences in investment in human capital formation are a major explanation for the differences in national outputs of various countries. Therefore, he recommended that assistance to "underdeveloped" countries should redirect attention from the formation of nonhuman to human capital to achieve economic growth (Schultz 1961: 15–16). Another major contributor to the human capital theory, Gary Becker, explains that the main motivating factor for the increased attention given to human capital was the realisation that the growth of physical capital explains a relatively small part of the growth of income in most countries (Becker 1994: 11).

Becker's overall focus is on micro-level issues related to education such as how the amount invested by individuals is determined by optimisation behaviour so that the individual maximises economic welfare (Becker 1994). Later developments offered theoretical justifications for the central role of human capital in the growth process and demonstrated that inclusion of human capital in the aggregate production function can explain differences in cross-country income per capita (Savvides and Stengos 2009: 6).

Overall, the standard theoretical approach to human development outlined above is inappropriate to study education and economic development in Ethiopia for several reasons. One reason is the fact that it is based on the assumption of full employment of all resources (including labour), which clearly does not reflect the context of developing countries like Ethiopia. Second, it assumes perfectly competitive product and labour markets (see, e.g., Becker, 1994: 304)—an assumption that is again clearly at variance with the reality in countries like Ethiopia. Third, the standard growth theories and human development theories consider economic development as a process largely driven by accumulation of investments in physical and human capital (Nelson 2016). This is what Schumpeter called "the pedestrian view that it is capital per se that propels the capitalist engine" when in fact capital *per se* is sterile (Reinert 2006: 7). Fourth and a related weakness is the implicit but core assumption of standard economics that economic structure is irrelevant, i.e., accumulation of physical and human capital *per se* will lead to economic development regardless of the economic structure within which investment is made (Reinert 2006: 7).

Given these major weaknesses in the standard approach to human development and education, this chapter employs an alternative theoretical framework drawn from an economics tradition that may be broadly called evolutionary, historical, and pragmatic. The tradition can be traced back to at least the works of Antonio Serra (1613), Friedrich List (1827, 1841), the nineteenth-century American System of Political Economy (e.g., Carey, 1888), and Ethiopia's early modern intellectual, Gebrahiwot Baykedagn (1924).[1] The framework considers capitalism as a system of production where the main elements of capitalist dynamics and drivers of development are not capital, labour or markets but new knowledge, entrepreneurship, innovations and organisational ability (Reinert and Kattel 2004: 2-3; Gebrehiwot Baykedagn 1924: 42, 53, 61). Thus, the core aspect of development is transforming productive structures based on superior technology, skill, knowledge, and organiational capability embodied in institutions (Chang 2011).

[1] See Zinabu (2018) for genealogy of this tradition and its relevance today.

Based on historical evidence, this theoretical tradition posits that economic development requires transferring and mastering skills and, above all, creating a viable market for activities with increasing returns to scale where the absence of purchasing power and massive unemployment tend to go hand in hand (Reinert, 2006: 7). Thus, in sharp contrast to the mainstream approach where full employment is routinely assumed, in this approach, creation of productive formal employment *is* a key policy objective. This is because massive unemployment, underemployment and the lack of purchasing power are the key impediments to the formation and expansion of businesses in developing countries. In contrast to the standard approach, development is seen as 'activity specific': different economic activities and different professions have very different capacities to profitably absorb capital (human or other) and knowledge; different professions have different "windows of opportunity"' for creating welfare since "one cannot profitably add as much human capital to the job of washing dishes as to the job of being a lawyer" (Reinert 1999: 313).

In this tradition of development economics, human development and education occupy important positions because economic development relies heavily on accumulation and use of knowledge, which together with innovation, helps build more knowledge and technical innovation in a circular and cumulative manner further strengthening virtuous cycles of economic development and improving living standards (see, e.g., Gebrehiwot 1924: 24–9). To be effective, however, investments in education and human capital development need to be nested and managed in a coordinated and synergistic manner with other components of an industrialisation and structural transformation strategy.

Moreover, even though development requires heavy investment in formation of human and physical capital, the key driving force of catch-up with advanced economies "is assimilation, learning to do effectively what countries at the frontier have been doing" (Nelson 2016: 330). To a considerable extent, innovation and effective learning tend to draw supplies of physical and human capital by enabling their rates of return to be high (ibid.). Therefore, scholars of this intellectual tradition argue that sustainable economic development requires a deliberate and comprehensive set of state-directed, synergistic complementary interventions in infrastructure development, human development and education, technology adoption and innovation, internal market development, financial sector development that favours long-term and strategic investments, and selective and dynamic industrial policy (including export promotion *and* import substitution)—all aimed at achieving structural transformation.[2]

[2] See Zinabu (*forthcoming*) for details on this.

The intended form of structural transformation is away from specialisation in 'nature-intensive', low-skill, low-knowledge, low-technology economic activities towards 'knowledge-intensive', higher-skill, and technology-intensive economic activities. Otherwise, higher investments in education and human development in the absence of long-term development vision for economic diversification and structural transformation would only lead to unemployment, underemployment, and outmigration of the most educated elements of a society to more advanced economies. This is because an undiversified economy with low productivity and low technology cannot afford to hold onto the best, brightest, and most capable of its human resources, and counter the pull of much higher wages and better working and living conditions in the more advanced economies (UNCTAD 2012: 88). The implication in terms of policies and strategies aimed at job creation is to focus on higher-skill, knowledge- and technology-intensive jobs because growth of employment opportunities of this nature in an economy tends to increase the real wages rates and welfare of the low-skilled segments of the workforce in that economy as well.[3]

Education sector development in Ethiopia from 1991 to 2017

Education policies, strategies, and programmes

The Derg military regime in Ethiopia was overthrown in May 1991 by a coalition of armed groups led by the Ethiopian Revolutionary Democratic Front (EPDF). From the very beginning, the EPRDF government identified education as one of its priorities (Ayenachew 2015). The government issued its comprehensive education and training policy (ETP) in 1994. The ETP aimed at improving the state of education at all levels and ensuring that education makes the required contribution to the country's development (Ayenachew 2015: 2). The policy identified access, quality, equity, and relevance as the main challenges of the education system of the nation. In practice, however, expanding access and equity have been given priority over quality and relevance. Consequently, there has been a rapid quantitative expansion of education, partly motivated by the need to meet the globally agreed target of Universal Primary Education by 2015 (MoE 2006: 6).

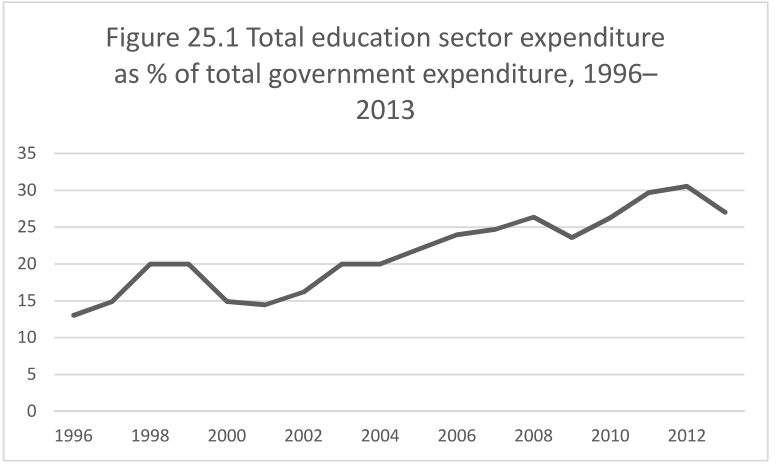
The ETP has been operationalised and implemented through a series of five-year Education Sector Development Programmes (ESDPs) the first of which was introduced during the 1997/98 budget year; and currently ESDP V (2015/16–2019/20) is under implementation. Each of the ESDPs derives its goals and strategies from the ETP and identifies specific time-bound objectives for each level of education along

[3] In fact, real wage rates of the unskilled labor in an economy is largely determined by the real wage rates of those of high-skill, technology-intensive, increasing returns-to-scale sectors that operate in the economy. See Reinert (1999) and Chang (2010 Ch. 15) for details on this.

with the resource and organisational requirements (MoE 2006: 5). ESDP I had the long-term goal of achieving primary education by the year 2015 (MOFED 2002: 89). ESDP II spanned three years from 2002/03 to 2004/05 and focused on "ensuring access to elementary education for all citizens along with improving quality and relevance to socioeconomic development" (MOFED 2002: 44). Similarly, ESDP III, which was part of the Plan for Accelerated and Sustainable Development to End Poverty (PASDEP) (2005/06–2009/10), was focused on achieving the Millennium Development Goals (MDGs) and supplying qualified trained work force with the necessary quantity and quality at all levels (MOFED 2006: 109).

Until 2010 when the government introduced the Growth and Transformation Plan (GTP I) (MOFED 2010), the goals, objectives and strategies of the policies and plans of the government were not aimed at structural transformation and industrialisation. For instance, both the interim and full PRSP as well as PASDEP documents issued in 2000, 2002, and 2006, respectively, emphasise poverty reduction as the core agenda of the country's development (MoFED 2002: I; MOFED 2002: 8, MoFED 2006: 1). Consequently, there was deliberate defocus on changing the productive structure of the economy and an overriding focus on traditional, smallholder agriculture (MOFED 2002: i).

With the adoption of the GTP, however, priority shifted away from traditional smallholder agriculture towards industrialisation and structural transformation. Following this shift in development policy, the objectives and targets of the education sector also show a marked shift towards producing the human resources required to achieve industrialisation and structural transformation. For instance, ESDP IV, which was included in GTP I, stresses as its goal the production of "efficient and effective, knowledge based, inspired and innovative citizens who can contribute to the realization of the long-term vision of making Ethiopia into a Middle-Income Economy" (MOFED 2010: 49). The shift is more pronounced in GTP II (2015/16–2019/20) which states: "Sustainable economic growth and transformation demands a healthy workforce equipped with the knowledge and skills to be highly productive and to generate innovations in technologies, processes, products, and services…The development of human resource capabilities will be interlinked with proper technological development and utilization...Thus, ensuring quality and accessible education and health services and augmenting the innovation skills through encouraging Research and Development (R&D) activities in the public and private sectors are needed to develop the human resource capabilities" (National Planning Commission 2016: 88).



Source: World Development Indicators of World Bank and World Bank (2016: 92)

As can be seen from Figure 25.1, the government's consistent commitment to the education sector has been demonstrated through resource allocation as well: the national budget allocated to the sector has been one of the highest throughout the past quarter century. If we consider total government expenditure (including local, regional, and central government), the share spent on education for the years 2006–13 averaged 26 per cent; this share almost doubled from 15 per cent in 2000 to 27 per cent in 2013; in comparison, the sub-Saharan average, which stood at 15.26 per cent in 1998, increased only to 16.62 per cent in 2013 (source: World Development Indicators of World Bank). As a result, Ethiopia has been consistently ranking top in Africa with respect to the share of education sector in government expenditure for more than a decade. In addition, over the past quarter century, the education sector policies, strategies, and programmes have largely been aligned and closely linked with the overarching development priorities of the government. However, until recently, these priorities were not aimed at achieving structural transformation but poverty reduction and international targets such as the Universal Primary Education. As we shall see below, this has had significant bearing on the quality of education and its external efficiency.

Organisation and management of the education system

The educational system in Ethiopia follows the decentralised administrative structure of the government: it is divided into nine national regional states and two city administrations (MOE 2006: 5). Each regional state/city administration has its own Bureau of Education, various *woreda* [district] Education Offices and *kebele*s with their Education and Training Boards responsible for administering and managing the

educational system. In some of the larger regions, the Zonal Educational Departments bridge administratively all educational activities between *woreda*s and regional bureaus. Except for tertiary educational institutions, each Regional State Education Bureau is both administratively and financially responsible for general education, and technical and vocational education and training (TVET) as well as teacher training and other diploma-level institutions that operate in their respective regional states.

With respect to structure, the present educational system comprises primary, secondary, TVET, and tertiary education. Primary education is conducted from Grades 1–8, and is implemented in two cycles: primary first cycle (Grades 1–4) and primary second cycle (Grades 5–8). Secondary education has two cycles: Grades 9–10 and Grades 11–12. At the end of the first cycle of secondary education students take a national examination, which is used to select students that qualify for the next higher level of education called the preparatory level. The preparatory level (Grades 11 and 12) aims at preparing students for university education. Those who do not fulfil the criteria for the preparatory level can be enrolled in teacher education colleges and TVET schools. The achievements and performance of the post-1991 period are highlighted below using selected indicators for each level of education. Given space limitations, the descriptions and discussion are brief. Discussion of the major challenges of the performance of the sector is deferred to the next section.

Primary education

As noted above, the driving force behind the government's investment in primary education has been equity of access; and attainment of quantitative targets has been seen as paramount so that the country can meet international commitments (such as Universal Primary Education by 2015). To this end, between 1996 and 2014, the number of primary schools increased from 11,000 to 32,048, allowing for full intake of students into Grade 1 when they reach the age of seven (MoE 2015: 13). By the academic year 2015/16, the net intake rate (NIR) (the proportion of 7-year-olds who enroll in Grade 1 at the national level) was 115.8 per cent (though there are significant regional variations) (MoE 2017: 24).[4]

[4] NIR above 100 per cent is technically impossible as it indicates that there are more 7-year-olds in Grade 1 than there are in the population. This reflects the problems with the population projection and the fact that many children do not have accurate birth dates and are unsure of their age.

Table 25.1 Key performance indicators and trends for primary education (Grades 1–8), 1995/06–2015/16

Year	GER Males	GER Females	GER Total	NER Male	NER Females	NER Total	Grade 8 completion rate (males)	Grade 8 completion rate (females)	Grade 8 completion rate (total)
1995/96	36.6	22.7	30.1	17.425.7	17.4	21.6			
1996/97	43	26	34.7	29.5	20	24.9			
1997/98	52	31.2	41.8	43	28	36			
1998/99	55.9	35.3	45.8	46.9	31.9	39.5			
1999/00	60.9	40.7	51	51.2	36.6	44			
2000/01	67.3	47	57.4	55.7	41.7	48.8			
2001/02	71.7	51	61.6	59	45.2	52.2			
2002/03	74.6	53.8	64.4	60.6	47.2	54			
2003/04	77.4	59.1	68.4	62.9	51.8	57.4	34.9	19.1	27.1
2004/05	88	71.5	79.8	73.2	63.6	68.5	42.1	26.3	34.3
2005/06	98.6	83.9	91.3	81.7	73.2	77.5	50.1	32.9	41.7
2006/07	98	85.1	91.7	82.6	75.5	79.1	51.3	36.9	44.2
2007/08	100.5	90.5	95.6	86	80.7	83.4	49.4	39.9	44.7
2008/09	97.6	90.7	94.2	84.6	81.3	83	48.4	40.5	43.6
2009/10	96.6	90.1	93.4	83.7	80.5	82.1	51.0	44.5	44.5
2010/11	99.5	93.2	96.4	87	83.5	85.3	52.5	46.2	49.4
2011/12	99.5	92.9	95.4	86.8	83.9	85.4	52.4	51.9	52.1
2012/13	97.9	93	95.5	87.5	83.9	85.7	53.3	52.2	52.8
2013/14	104.8	97.8	101.3	95.1	90.1	92.6	46.7	46.7	46.7
2014/15	108.5	99.5	104	96.9	90.5	93.7	51.8	50.9	50.95
2015/16	113.71	113.7	108.67	104.2	96.2	100.3	55.3	53.3	54.3

Source: Compiled from MoE, *Educational Statistics Annual Abstract* (various years)

Similarly, as can be seen from Table 25.1, the gross enrollment rate (GER)[5] for Grades 1–8 was 108.7 per cent in 2015/16, again with substantial regional variation.[6][7] This is a substantial improvement compared to as late as the 1999/2000 academic year when the GER at national level was 51 per cent. Net enrollment rate (NER), which only looks at the 7–14-year-olds enrolled in primary education, and which had stood at just 21.6 per cent in 1995/96, increased to 100.25 per cent in 2015/16, quadrupling over a 20-year period. Overall, the Ethiopian primary education system enrolled and served 18.43 million children, employing 424,560 teachers in 34,867 primary schools located across the country (MoE 2017). Both gender and regional equity aspects have been showing consistent improvement over the years.

[5] GER shows the total number of children that have enrolled in Grades 1–8, irrespective of their age, as a proportion of the school-age population.

[6] This shows that there are more children in primary grades than there are children between 7 and 14 indicating that children younger than 7 and older than 14 are enrolling into primary schools.

[7] Dire Dawa and Afar had the lowest GER at 70 per cent and 66 per cent, respectively; Gambella and Addis Ababa had very high GERs both over 140 per cent.

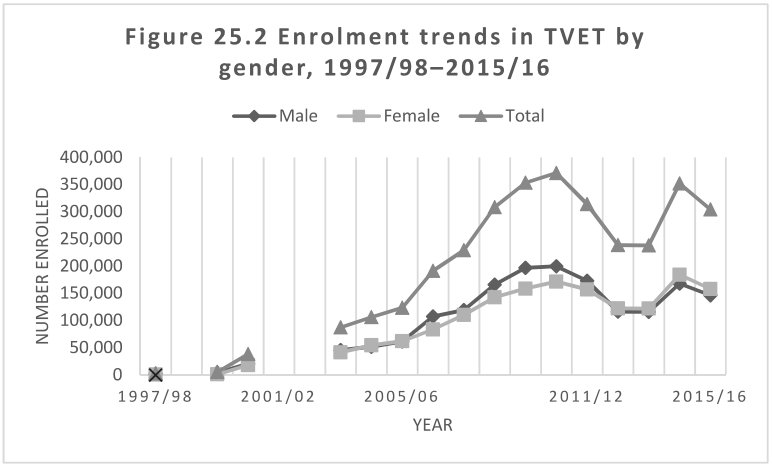
Secondary education

In 1999/2000, 571,719 students were enrolled in 410 Ethiopian secondary schools, and the national GER for secondary education (9–12) was 10.3 per cent (MoE 2000). In contrast, in 2015/16, there were 3,156 secondary schools which enrolled 1,982,185 students where the GER for Grades 9–12 was 29.04 per cent (MoE 2017). In other words, both the intake capacity and GER at secondary education level more or less tripled over this period, but many children are either not completing primary education or are not proceeding into secondary education. When secondary education is split into first (Grades 9–10) and second (Grades 11–12) cycles, the GER drops significantly between the two cycles: national GER for the first cycle stood at 44.83 per cent but just 12.56 per cent for the second cycle in 2015/16 (ibid.: 53). There are wide regional variations, with a GER in Addis Ababa of 82.27 per cent and Afar (8.62 per cent) and Somali regional (11.2 per cent) states achieving the lowest GERs at this level (MoE 2017: 52). The disaggregation into the two cycles also shows high enrolment in Addis Ababa with GER over 100 per cent (112.91 per cent) and very low GER for Afar (12.63 per cent) and Somali (13.94 per cent) regions for Grades 9–10 (ibid.).[8] The national NER for the first cycle for the academic year 2015/16 was still a paltry 23.78 per cent (ibid.: 56). However, this is at least three times what it was in the 1999/2000 academic year (MoE 2000: 23). The data show that equity aspects of access to education have generally been improving across time, but they get progressively worse the higher the level of education.

Technical and vocational education and training (TVET)

In Ethiopia, TVET is institutionally somewhat separate from the rest of the education system, and forms a parallel track where students entering TVET stream after completing Grade 10 have three options, depending on the score received in the national exam: (1) one year of training (10+1); 2 years' training (10+2), or three years' training (10+3). Students who complete three years of training are considered to have completed the first year of college-level education and can join universities to complete their undergraduate degree. Students that attain level 4 in TVET can continue to higher education. TVET graduates have the option to go through official assessment of their skills for key competencies. The government plans to establish TVET institutes in all *woreda*s of the country by 2020 (MoE 2015: 10).

[8] GER above 100 per cent for Addis means that many of the students in secondary schools in the city are not in the official age range and are under 15 or over 16.



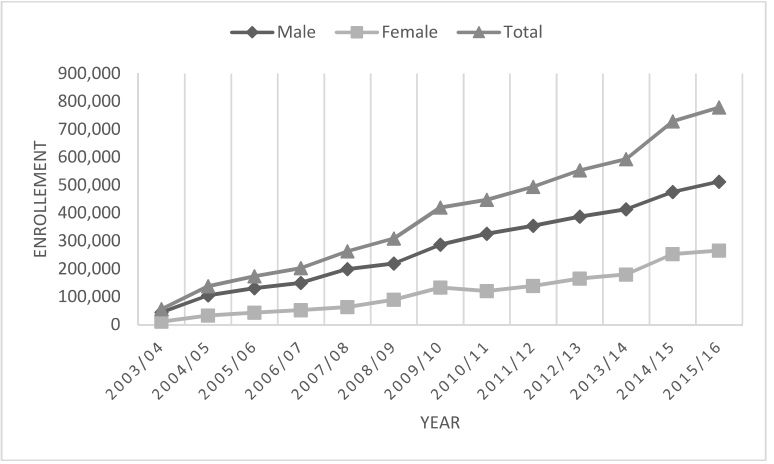
Source: Compiled from MoE, *Educational Statistics Annual Abstract* (various years)

As can be seen from Figure 25.2, there has been substantial increase in enrollment in TVET between 1997/98 and 2015/16. During the academic year 2001/02 there were 123 government and eighteen non-government TVET schools in the country enrolling a total of 38,176 students (MoE 2002: 8). In addition, there were 28 TVET centres under the Ministry of Agriculture that enrolled 12,494 students during that year. In contrast, during the 2015/16, there were 582 TVET institutions across the country that enrolled 304,139 students (MoE 2017). In other words, the enrollment increased six-fold over the period while the number of institutions expanded close to four-fold. During the same year, 131,097 students graduated in TVET levels I–IV (ibid.: 117).

Higher education

When the EPRDF government assumed power in 1991, there were only two universities (Addis Ababa and Haromaya), and the gross enrolment rate in higher education was 0.7 per cent in 1995 (Ayenachew 2015: 2). However, by the turn of the century, the government had launched five new universities—by upgrading junior-level institutions—marking the beginning of an aggressive expansion programme (ibid.). Because of the massive public investment programme implemented ever since, by 2016 the country had 38 accredited universities (36 of which are government owned).

Figure 25.3: Trends in undergraduate enrolment in government and non-government institutions, all programmes



Source: Compiled from MoE, *Educational Statistics Annual Abstract* (various years)

As can be seen from Figure 25.3, due to this massive expansion, total undergraduate level enrolment expanded from 56,072 in 2003/04 to 778,766 in 2015/16 (MoE 2017: 123)—showing an annual growth rate of 25.5 per cent and a close to 14-fold increment. In addition to undergraduate programmes, enrolment in graduate programmes has also expanded rapidly during recent years with gross enrolment increasing from 2,560 in 2003/04 to 51,521 in 2015/16 (MoE 2017: 127)—a 20-fold increment in thirteen years. As pointed out earlier, the gender gap in access/enrollment progressively widens when moving from lower to higher levels of education (the highest gap being at the PhD level); nevertheless, the massive expansion and targeted affirmative action measures have partially reduced gender disparities in access to higher education.

Data compiled from MOE[9] shows that, in terms of graduation also, growth rates have been consistently high over recent years; for instance, 127,275 students obtained first degrees in 2015/16 compared to 75,348 in 2010/11. Since the introduction of ESDP IV in 2010, which for the first time admitted a need for economic transformation and that it would require a "conscious application of science, technology and innovation as the major instruments to create wealth" (Ayencachew 2015: 24), there has been a deliberate shift in undergraduate enrolment away from social sciences and towards natural sciences, with

[9] MOE, *Educational Statistics Annual Abstract* (various years)

the target for the ratio of enrolment in natural science to that of social science set at 70:30. As of 2015/16, the ratio was 62:38 (MoE 2017: 127).

Major shortcomings in the Ethiopian education system

Despite the clear quantitative improvement in access to and provision of education at all levels, there have been major shortcomings in Ethiopian education in recent years. This section highlights two of the most important problems: poor quality education at all levels, and low external efficiency due to the failure to achieve any meaningful level of transformation of the productive structure of the Ethiopian economy.

A vicious cycle of low-quality education

At the primary level, National Learning Assessments (NLA) have been conducted since 2010. The results show that education quality is very low. For instance, an Early Grade Reading Assessment (EGRA) conducted in 2010 found that 33.9 per cent of children in Grade 2 and 20 per cent in Grade 3 read zero words correctly (Girma and Raysarkar 2017: 1–2). Moreover, according to World Bank (2017) between a third and over a half of 4th-grade and 8th-grade students tested in 2015 at the proficiency level were rated as "below basic" in all subjects, except English for Grade 8. The "below basic" proficiency level means that the student has minimal understanding of the subject and lacks the skills to solve simple problems appropriate for that grade level. Reading scores at Grade 4 were of particular concern, as 44 per cent of students nationally tested at the below basic level in reading in 2015 (ibid.). NLA data also show that the proportion of students performing at advanced levels is very low—in most cases below 10 per cent—in Grades 4 and 8 (ibid.). The situation of internal efficiency of the primary sub-sector is also not encouraging: the dropout rates are high (~18.1 per cent in 2015/16 for Grade 1) and completion rates are low (55.5 per cent for Grade 8 in 2015/16) (MoE 2017: 4).

At secondary level also, the 2010 NLA results show mean scores for Grade 10 (36 per cent) and Grade 12 (47.8 per cent) were both below the minimum standard of 50 per cent set by the 1994 Education and Training Policy. The main findings of the NLA that was conducted for Grade 12 in 2013 also indicated that the overall test performance of the students was far below the minimum standard. According to MoE (2015), “In grade ten, the share of students that achieved an average score of 50 per cent across the five core subjects (mathematics, English, physics, chemistry, biology) stood at 23 per cent in the 2014 assessment. In the same assessment, only 3 per cent achieved 75 per cent or above in their average score”

(ibid.: 17). The performance at Grade 12 was slightly better (possibly due to selection of better-performing students following Grade ten) in the latest assessment (2014): 34 per cent of students achieved an average score of 50 per cent across the five core subjects and 4 per cent of students achieved an average score of 75 per cent (ibid.). The situation of the TVET sub-sector is also not good. For instance, of the TVET graduates in Addis Ababa that took competence tests in 2012, only 10 per cent were found competent in their area of core competence (Shaorshadze and Krishnan 2012: 19).

With respect to higher education, MoE (2015) admits that many students join higher education institutions with results below the 50 per cent threshold in the higher education entrance examinations; in physics, a basis for engineering studies, students' results are extremely low; the graduation rate of regular undergraduate students is as low as 79 per cent; and this "implies a low quality of instruction or perceived low relevance of the higher education courses being offered. It could also be a reflection of the low quality of students introduced to higher education, who, irrespective of teaching quality, have not been prepared for learning at this level" (ibid.: 22). Moreover, with a view to having sufficient numbers of qualified teaching staff for new universities, MoE invited students graduating from bachelor's programmes to sit for a qualifying examination at the end of the 2014/15 academic year (Ayenachew 2017: 18). Close to 10,000 graduates from 32 universities across the country took the examination where eligibility requirements included a minimum cumulative grade point average (GPA) of 2.75 for men and 2.5 for women. The test results were such that, out of the possible 100 marks, only one person scored 81 followed by 28 candidates who scored between 70 and 79; and the overall average score was 57.8. (ibid.). Ultimately, 716 candidates were selected and offered a job; but this is unfortunate because, "A score of 57.8 in one's major must be viewed at best as a mediocre result. Disturbingly, 127 of the selected candidates (or close to one-fifth) scored a failing result (less than 50 per cent)" (ibid.).

We consider only two important factors that have undermined the quality of education in the country for lack of space: quality of schools and quality/motivation of teaching staff. The Ministry has instituted school quality standards where schools are assessed against 26 standards for school inputs, processes, and outcomes. According to World Bank (2017), inspections conducted between 2013 and 2016 found that about 90 per cent of primary schools and 83 per cent of secondary schools did not meet national standards; about 26 per cent of the primary schools and 16 per cent of the secondary schools are rated at the lowest level (level 1); almost two-thirds of each type, at level 2. Thus, one cannot expect sub-standard schools to be venues for high-quality education. One cannot also expect to achieve high-quality general

education when it is those who fail to qualify for preparatory level (second cycle high school) who are enrolled in teachers' education colleges.

With respect to teaching staff in institutions of higher education in Ethiopia, the MoE has set a standard of 0:70:30 (Bachelor: Masters': Doctorate degree holders, respectively) (MoE 2015: 23). However, it admits "The supply of teaching staff with postgraduate qualifications has not kept pace with the increase in student enrolment. As a result, a large share of undergraduate students is taught by staff with a bachelor's degree", since "the current ratio is 27:58:15 (ibid.: 22–23). However, the problem is not only about the supply of PhDs but also about skewed geographical distribution: in 2012, among teachers and researchers working in Ethiopian universities, only 6.4 per cent held a doctoral degree; and half of them worked at Addis Ababa University (UNCTAD 2012: 99). Moreover, the education system in Ethiopia is filled with teaching staff who are not motivated to teach or stay in the profession: "A 2014 study conducted by the MoE, however, suggested that 70 per cent of teachers would, if given an equivalently paid option, leave the profession" (MoE 2015: 55–6).

Economic structure, equality, and external efficiency of education in Ethiopia

It is very clear that Ethiopia has achieved enormous success in terms of increasing access to all levels of education throughout the country. However, this success has been achieved at the expense of education quality at all levels in the form of a vicious cycle where low-quality inputs (e.g., teachers, schools) from the lowest level to the highest generate second- and third- round effects continually eroding the quality of education. However, even if there is consensus on the challenges of improving the quality of education, there does not exist the understanding that the low-quality inputs that are negatively and persistently affecting the quality of education are intimately tied to the level and structure of the Ethiopian economy.

For instance, there is ample evidence within the country that the income levels of the parents are directly related to the success of children in primary education: "there are large disparities in learning levels between children from different socio-economic groups"; "children from the poorest households and those from rural sites are making the slowest progress through grades" and "children from better-off households, with caregivers who have completed primary school, and those living in urban sites, perform better in tests of maths and vocabulary" (Young Lives 2017). In addition, the dearth and skewed distribution of highly qualified staff at higher education institutions is—to a large extent—not due to lack of qualified Ethiopians but because the economy and the education system could not afford to keep them in the country/academic institutions. In fact, according to UNCTAD (2012), the number of PhD-holding

teachers and researchers active in the country's universities is much lower than the members of the Ethiopian diaspora just in the United States and Canada who hold PhDs. "The case study on the Ethiopian academic diaspora prepared for this Report identified 200 Ethiopian professors currently working in foreign universities, of whom 148 are active in the United States. Among these, 72 are full professors. In Ethiopia, by contrast, only 65 persons hold an equivalent position. In other words, there are more Ethiopian full professors working in the United States than in Ethiopia itself, in spite of the strong need of Ethiopian universities for very highly skilled people" (ibid.: 101).

One of the main reasons why the Ethiopian economy cannot keep the best, brightest and the most qualified within its boundaries is because it is poor, undiversified, and technologically backward where low-productivity, low-technology, low-skill and low value-added agriculture provides employment for more than 80 per cent of the population. For instance, modern manufacturing is historically well-known for being the engine of economic development, the 'learning centre' of the economy, centre of technical change, innovation, technology diffusion, and the key driver of productivity growth in an economy.[10] However, the performance of the sector in Ethiopia has been dismal: "its contribution to GDP not only remained low but also contracted slightly from about 6 per cent of GDP during 2000–04 to about 4 per cent during the first GTP [i.e. 2010– 2015]" (Admasu 2017: 4).

Meanwhile, the lack of structural transformation of the Ethiopian economy is intimately related to the economic policies and strategies that have been adopted and implemented by the Ethiopian government since it came to power in 1991. As previously discussed, there was deliberate and conscious focus on poverty reduction at the expense of structural transformation at least until 2010. This was in line with the prevailing orthodoxy in the international development discourse such as the poverty reduction and MDG agenda, which focus on treating the symptoms of underdevelopment rather than its causes (Reinert 2006; Chang 2011). The orthodoxy overlooked or ignored the fact that economic development requires structural transformation and industrialisation, and pushed governments of developing countries including that of Ethiopia to focus their attention and resources on social sectors such as health and education (particularly at the primary and secondary levels) at the expense of changing the productive structure of the economy (UNCTAD, 2011: 11–-13).

[10] Consequently, historically, the terms 'industrialised country' and 'developed country' are used interchangeably. See Zinabu (2017) Section 3.1 for details and associated literature on this point.

Changing the productive structure of the economy could have created a virtuous and sustainable circle in the economies and enabled them to eventually afford the provision of high-quality social services such as education and health. Thus, the success achieved by Ethiopia in terms of expansion of access to education is not an unqualified blessing because the substantial policy attention and resources that were invested in the sector—averaging 27 per cent of the government's budget—have not been matched by policies and efforts to change the productive structure of the economy. For instance, while the government invested heavily in social sectors (such as education and health) as well as transport infrastructure, it ignored the other elements required for changing the productive structure of the economy, such as selective, dynamic, and context-specific industrial policy (since its main aim was addressing poverty rather than economic transformation). Moreover, as discussed above, it is only since 2010 that the government began explicitly emphasising the links between economic transformation and (science- and technology-focused) education. Whether intentionally or not, the adherence of the Ethiopian government to the prevailing development orthodoxy may also have had a significant bearing on the external efficiency of education in the country.

The failure to achieve any meaningful structural transformation means that the private sector is not able to create enough well-paying jobs that require higher skills and academic qualification.[11] Small-scale, rain-fed, low-technology agriculture is the employer of approximately 83.5 per cent of the country's population; and this kind of economic activity cannot generate substantial skilled employment. Second, the focus of the government's employment creation initiatives is skewed towards unskilled and low-skilled jobs by default and design. Urban development was an ignored area in Ethiopia until the government issued the Urban Development Policy in 2005; and even when urban development got the necessary policy attention, the focus of creation of urban employment has been through micro and small enterprises (MSE). Even GTP II argues that youth employment is best addressed by organising young people in MSEs and sets a goal of organising 7.43 million people in MSEs (National Planning Commission 2016: 127). It is no wonder that in Ethiopia, as late as 2012, MSEs comprised 99 per cent of all enterprises and over 60 per cent of private employment (Broussar and Tsegay 2012: 30). Unfortunately, MSEs tend to create predominantly informal, unskilled, low-skilled, low-paying, non-permanent jobs under poor working conditions (Hampel-Milagrosa and Reeg 2016).

[11] According to Broussar and Tsegay (2012: 28), in Ethiopia, individuals with higher education are more likely to work for the government and roughly 50 per cent of individuals with higher education are employed by the government.

Therefore, it is not surprising that there has been a positive relationship between educational attainment and unemployment in Ethiopia since 1999 (since the first national labour survey was conducted). That is, since then, the share of the unemployed who were educated has increased (Broussar and Tsegay 2012: 26) despite the robust GDP growth rates that were registered during the same period. Moreover, urban youth unemployment across the country stood at 21.6 per cent; and in 2013, among the unemployed, the highest rate of unemployment (24 per cent) was recorded for those who attained preparatory education; the lowest unemployment rate was registered for persons who attained non-formal education (1.6 per cent); throughout the three national labour force surveys (1999, 2011, and 2013), the unemployment rate of literate persons is higher than illiterate persons; and the overall unemployment rate for 26 major urban centres is 21.3 per cent (CSA 2014). In short, even if the education system is producing very large working-age population, the economy has not been generating a sufficient number of well-paying, skill/knowledge-intensive jobs but jobs that require little or no education even when the job creation is through deliberate government intervention. The unbalanced focus on the supply side of the labour market while ignoring the demand side would just exacerbate the problem of unemployment. This is because, in the presence of high unemployment at all levels, improving the capabilities of job seekers will only lead to more unemployment and not to more paid employment or self-employment above the subsistence level (Amsden 2010: 57).

In summary, expansion of education in Ethiopia since 1991 without simultaneous and equivalent focus on and achievement of structural transformation and creation of high-skilled and well-paying jobs has resulted in the country being one of the worst affected Least Developed Countries (LDCs) in the world with respect to brain drain (UNCTAD 2012: 95,96, 101). Thus, besides the large number of academicians and PhD-holders, the UNCTAD report referred to above estimates that, out of all Ethiopian medical doctors, between a third and a half work abroad (UNCTAD 2012: 101). Furthermore, it estimates the opportunity cost of training and then losing a medical doctor by the country to brain drain to be at least US$364,000 (ibid.).

Concluding remarks

From the description and analyses presented above, it is clear that the achievement of massive expansion of access to education has resulted not only in a vicious cycle of low quality but also in increased unemployment and underemployment of the educated human resources, the loss of the best and the brightest human resources to the developed world, and substantial financial opportunity cost per the

skilled/educated out-migrant. This failure to effectively and productively put the potential of the skilled and educated human resources to maximum use negatively affects the prospects for industrialisation and structural transformation. Industrialisation and structural transformation would not only have led to improved economic welfare/living standards for Ethiopian society but also would have enabled the public sector—through increased domestic resource mobilisation—to afford further expansion and quality improvement of basic social services such as education.

Breaking these two mutually reinforcing vicious cycles of unbalanced focus on achieving social goals (of education) at the expense of changing the productive and technological/skill structure of the economy, and loss and wastage of precious human resources to brain drain, unemployment, and underemployment requires well-crafted, synergistic, dynamic, context-specific, and comprehensive policies and strategies aimed at deliberately and progressively moving the Ethiopian economy away from its current specialisation in nature-intensive, low-skill, low-knowledge, low-technology economic activities towards 'mind-intensive', higher-skill and technology-intensive economic activities. Among other things, this will also require the government to move its focus away from creation and promotion of employment in low-skill economic activities and towards higher-skill activities. This is because creation of high-skill, well-paying jobs would tend to automatically lead to increased real wages for the low-skilled segment of the workforce as well.

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Annex

Zinabu Samaro Rekiso. (2016). Trade Deficits as Development Deficits: A Case Study of Ethiopia's Persistent Trade Deficits. Under peer review at *Post Keynesian Journal of Economics*.

Trade Deficits as Development Deficits: Case of Ethiopia

By Zinabu Samaro Rekiso

Abstract

Even though there has been massive research on the impact of trade liberalisation on various aspects of economic performance, its impact on trade deficits have been virtually ignored. This is partly due to the underlying theoretical framework which is based on patently unrealistic assumptions and which rules out chronic trade deficits. Within such context, the paper argues that there is no theoretical or empirical justification for postulating an automatically balancing external trade in developing countries. Using a historical case study of Ethiopia, it also shows that chronic deficits are fundamentally structural in nature and therefore cannot be reversed without bringing about structural transformation of the economy from low-skill, low technology productive structure to high-skill, high technology intensive productive structure. It also concludes that such structural transformation cannot be realized under a liberal external trade regime which forces a country to specialize based on its 'natural' comparative advantage.

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1. Introduction

In the last 40 years or so, mainstream economics and the world's major economic institutions have placed great faith in trade liberalization as a means of promoting growth and development (Thirlwall, 2013: 122). This faith and the pressure on the developing world to adopt wholesale trade liberalization have been on the grounds that the best way to raise global living standards is to maximize trade (Rodrik, 2001: 5, 10). It is also built on the massive research on the impact of trade liberalization on various aspects of the economic performance of countries such as GDP growth, export growth, income distribution, wage inequality and poverty (Thirlwall, 2013: 124). But the research ignores the relationship between trade liberalization and import growth and balance of payments (Ibid: 133). The main reason for this is the underlying conventional international trade theory which claims that terms of trade automatically move to eliminate trade imbalances (Shaikh, 2007: 54).

As a result, there have been very few studies that actually analyze the impact of trade liberalization on the balance of payments (particularly on the trade balance); and the majority of these studies tend to be restricted to cross-country and panel methods; and therefore, do not look in detail at individual country cases. Hence, they do not adequately address country-specific contexts including historical, socioeconomic and institutional contexts. Moreover, while they focus on the impact of trade liberalization on the balance of payments (BOP) (and trade balance) and the impact on the BOP constraint on economic growth, they generally do not analyze the root causes of trade deficits in developing countries. They also tend not to nest their empirical analysis directly on a theoretical framework that addresses the weaknesses of the standard trade theories; and as a result, do not discuss in detail why their findings are contrary to those that are based on standard theories. Consequently, while their results present evidence against the predictions of conventional economic theory and the associated policy prescriptions that dominate the current development discourse, they do not forward policy prescriptions on how developing countries could address trade deficits.

Therefore, this paper attempts to address these gaps by using the case study of Ethiopia. Specifically, it aims at looking closely at why the predictions of conventional trade theories are at clear variance with the empirical evidence with respect to the impact of trade liberalization in a least developed country context. Using data for Ethiopia, it also aims to demonstrate that trade liberalization has not only led to persistently widening trade deficit but also that the deficit is fundamentally structural in nature and cannot be reversed without bringing about structural transformation of the economy from low-skill, low technology productive structure to high-skill, high technology intensive productive structure.

The rest of the paper is structured as follows. The next section reviews the conventional international trade theories with particular focus on their key assumptions that underlie the prediction that trade liberalization would not lead to worsening of trade deficits. That will be followed by Section 3 which presents an alternative theoretical framework which argues that trade deficits are fundamentally the result of deficits in productivity, and institutional and technological capability. Section 4 briefly reviews the empirical studies that look at the impact of trade liberalization on the trade deficits of developing countries. Section 5 presents a case study of the nature, trend and causes of Ethiopia's trade deficits and how these reacted to liberalization since the 1990. Finally, section 6 concludes.

2. Conventional Economic Theories and Trade Deficits

As noted above, the conventional academic and policy literature advocates for trade liberalization without paying attention to the issue of trade deficits. In this section we will briefly but critically look at the intellectual backbone of the case for free trade and liberalization: the doctrine of comparative

advantage. This is the doctrine which is considered to be so fundamental to the mainstream economics profession that, Paul Krugman states,

> "If there were an Economist's creed, it would contain the affirmations 'I understand the Principle of Comparative Advantage' and 'I advocate Free Trade.' … [T]he appreciation that international trade benefits a country whether it is 'fair' or not has been one of the touchstones of professionalism in economics…This makes the defense of free trade as close to a sacred tenet as any idea in economics." Krugman (1987: 130)

Furthermore, the doctrine is seen in the mainstream literature so 'sacred' and self-evident that one popular text book of intermediate international economics accuses anyone who disagrees with it of misconception and foolishness (Krugman, Obsfeld and Melitz, 2011: 11). And therefore, it goes on to cite Paul Samuelson, one of the foremost proponents of the neoclassical version of the doctrine as describing it "as the best example he knows of an economic principle that is undeniably true yet not obvious to intelligent people (Ibid: 24).

In Chapter 7 of his book, Ricardo (1817) originally presented this doctrine by using an example where there are two countries, England and Portugal, producing two goods, cloth and wine. He assumed that Portugal was more productive in both goods and presented a numerical argument that if England specialized in producing one of the two goods, and if Portugal produced the other, both countries could end up with more of both goods after specialization and free trade than they each had before. This means that England may benefit from free trade even if it were technologically inferior to Portugal in the production of everything. In its modern versions, the doctrine's conclusion that free trade is beneficial to all involved - irrespective of level of technological development and productivity - rests on several restrictive assumptions including fixed endowments, full employment of all resources, constant returns to scale, balanced trade and perfect competition in all products (Feenstra, 2004: 1-2). However, obviously, these assumptions are patently unrealistic, and since they are not heuristic assumptions but are critical features of the model that condition its conclusions, the domain of the doctrine's applicability should include only hypothetical economies: i.e. it is illogical to present the conclusions of this doctrine as evidence in favor of liberalization in the real world.

The neoclassical version of the comparative advantage theory, known as the Hecksher–Ohlin–Samuelson (HOS) model[1] takes the 'principle' of comparative *costs* for granted, as it does the notion that full employment obtains in both nations and then seeks to locate differences in national comparative costs in differences in national factor endowments, under the assumption of "perfect competition, international identity of production functions and factors, non-reversibility of factor intensities, international similarity of preferences, [and] constant returns-to-scale"(Shaikh, 2007: 53). Furthermore, it claims that terms of trade automatically move to eliminate trade imbalances (Ibid: 54).

It is based on these theories and their conclusions that the development discourse of recent decades has been advocating for trade liberalization to the extent that Willem Buiter, former professor at Cambridge University and a former chief economist of the EBRD (European Bank for Reconstruction and Development), once stated 'Remember: unilateral trade liberalization is not a "concession" or a "sacrifice" that one should be compensated for. It is an act of enlightened self-interest. Reciprocal trade liberalization enhances the gains but is not necessary for gains to be present. The economics is all there.' (cited in Chang, 2007: 51).

[1]The basic model originates from the 1919 article of Eli Heckscher and the 1924 dissertation of Bertil Ohlin (Feenstra, op. cit. : 2-1). Based on the works of these two Swedish economists, Paul Samuelson formulated a two countries, two goods and two factors of production (or the 2/2/2) mathematical model (Ibid).

To recap the essence of standard trade theories, it is the *comparative* costs of production which are said to be relevant, not the absolute costs, so that a nation is enjoined to focus on producing and exporting goods that are comparatively cheaper at home (Shaikh, 2007:51). Implicit in this presentation is the key claim that the market will then ensure that exports will be exchanged for an *equivalent* amount of imports, *so that trade will be balanced* (Dernburg 1989: 3). And here, it is argued that in free trade the terms of trade of a nation *will* always move in such a way as to eventually equate the values of exports and imports (Shaikh, 2007:52). In effect, a necessary condition for validity of the case for trade liberalization and free trade is that the terms of trade fall whenever a country runs a trade deficit and *also* that the trade deficit will diminish when terms of trade fall; and the opposite movements must occur in the case of a balance of trade surplus (Ibid).

This belief in automatically balancing of trade (non-existence of persistent trade deficits) rests on one or other forms of quantity theory of money.[2] The first definitive exposition of this theory is in David Hume's essay "Of Money" (Hume, 1752) which argues, "money is nothing but the representation of labour and commodities, and serves only as a method of rating or estimating them. Where coin is in greater plenty; as a greater quantity of it is required to represent the same quantity of goods; it can have no effect, either good or bad, taking a nation within itself". Hume (1752) in "Of the Balance of Trade" further argued that an increase in precious metals (gold and silver) would simply drive up the price level and have no real effects. What the application of quantity theory of money to international trade means is that gold movements (under the gold standard) were the instruments by which payments balance was supposed to be achieved, i.e. countries with a payments deficit would lose gold, causing an internal price deflation which would induce a rise in exports and a fall in imports, and the opposite for surplus countries; and thus continuous balance of payments equilibrium and full employment is maintained (Thirlwall, 2004: 3-4).

To illustrate the mechanics using David Ricardo's famous example where it is assumed that Portugal can produce both wine and cloth more cheaply than England, trade between England and Portugal would initially be all in one direction, with Portugal exporting both wine and cloth, which England would have to pay for directly in gold since its products were not competitive with Portugal's. The resulting outflow of gold from England would lead to decrease in its money supply and would therefore lower all money prices in England; similarly, the inflow of gold into Portugal would raise all money prices there. As long as the trade imbalance persisted, this mechanism would continue to make British wine and cloth progressively cheaper, and Portuguese wine and cloth progressively more expensive, until at some point England could undersell Portugal in one of the two commodities, leaving Portugal with the relative advantage in the other (Shaikh, 1980: 205).

However, historical evidence does not support the view that trade imbalances are balanced through monetary movements. Monetary historians have noted that instead of the price levels of deficit and surplus countries moving in *opposite* directions, there was a tendency in the nineteenth century for countries' price levels to move together (Thirlwall, 2004: 4). Thus, it was not relative price changes that operated to achieve payments balance, but expenditure and output changes; moreover, capital importing countries (in current account deficit) with high interest rates had expenditure damped relative to capital exporting countries (in current account surplus) with lower interest rates. Hence adjustment tended to be through income(Ibid). The evidence of the 20th century also refutes the standard trade theory in the sense that, the "appearance of persistent, marked competitive advantage for [countries

[2]Recardo, the father of comparative advantage doctrine, was an early believer in the quantity theory of money (See, for instance, Ricardo 1810).

such as] Japan and marked competitive disadvantage for countries [such as] the United States", coupled with "persistent, marked trade balance surpluses for Japan and deficits for the United States" have characterized much of the postwar period (Arndt and Richardson 1987: 12). Thus, the postulates and predictions of the standard theory were true neither under the fixed exchange rate regimes of the Bretton Woods period, nor under the flexible and volatile exchange rate regime of the post-1973 period (Shaikh and Antonopoulos, 1998: 203).

3. An Alternative View

To re-iterate, standard trade theories critically depend on the quantity theory of money which in turn critically depends on the assumption of full employment of resources. In these theories, "Exchange rates are ignored because they are assumed to be the relative price of two moneys, both of which are 'veils' that have no real effects. Money does not matter, and neither do exchange rates. They are all neutral. Interest rates do not matter because they are essentially intertemporal prices, with only second-order-or-small effects on inter-sectoral prices and relative factor prices" (Musgrave (1984): 3). Therefore, an alternative theoretical approach that can be used to analyze the potential impact of free trade and liberalization between two countries that are technologically and productivity-wise unequal is one which relaxes the full employment assumption and does away with the quantity theory of money[3].

Once these assumptions are dropped, Ricardo's famous example develops in a very different direction and leads to more sensible conclusions. As indicated above, the standard theory agrees that at the initial stage trade would be dictated by absolute advantage in the sense that Portugal which has absolute advantage in both wine and cloth would be exporting both, while England (which has absolute disadvantage in both) would end up importing both commodities from Portugal; and this would lead to outflow of gold from England to Portugal. According to Shaikh (1980), the primary effect of an outflow of gold from England will be to diminish the supply of loanable money-capital; while on the other hand, as English cloth and wine production succumbs to foreign competition, the demand for money-capital will also decrease (Ibid: 226). However, once these sectors are completely wiped out or have reached their minimal size, "the continuing drain of gold will tend to raise the rate of interest; insofar as this curtails investment, production of other commodities will decline. In England therefore, the drain of bullion will lead to lower bank reserves, curtailed production, and a higher rate of interest" (Ibid).

With respect to Portugal, the effects would be the opposite: part of the gold inflows (due to trade surplus) will be absorbed by the expanded circulation requirements of cloth and wine production (since there is no *a priori* assumption of full employment); part of it could be absorbed in the form of luxury articles; and the rest could be absorbed in the form of expanded bank reserves (Shaikh 1980: 226). The resulting expansion of bank reserves will increase the supply of loanable money-capital, lowering interest rates and tending to expand production in general (Ibid). In a nutshell, the initial absolute disadvantage of the less developed country will be manifested in chronic trade deficits balanced by outflow of gold whereas greater efficiency and productivity of the more advanced trading partner will manifest itself in chronic trade surpluses, balanced by a persistent accumulation of financial reserves (Ibid).

Can inflows of foreign capital be expected to help avert the problem of chronic trade deficits? Kregel (2004) shows how a development strategy that relies on inflows of foreign capital is a highly risky

[3] Keynes (1936) identified several major weaknesses to the quantity theory of money (as formalized by Irving Fischer) including the unjustified assumption and its neglect of the role of the rate of interest as one of the causative factors between money and prices

'double aged sword' and is essentially a Ponzi game. It is theoretically possible to maintain a development strategy based on net imports financed by foreign capital inflows only if the interest rates on the foreign borrowing are equal to the rate of increase of foreign borrowing; if interest rates are higher than the rate of increase of inflows, the policy will eventually and automatically become self-reversing as the current account becomes dominated by interest and profit remittances that exceed capital inflows (Ibid: 11). In addition, development policy based on external flows can succeed if and only if the external resources are dedicated to the creation of a competitive industrial sector to increase manufactured goods exports, allowing increased total imports for a given rate of capital inflow and eventually allowing exports to shift to covering debt service, allowing the rate of capital inflows to decline *pari passu* until the current account went into deficit, external debt was fully repaid and the country became a capital exporter with reverse capital flows (Ibid: 14).

However, the success of this cycle depends on a sequence of economic adjustments taking place over time: in the initial period of import substitution external resource flows need to be used to support the structural change of the economy through development of new diversified export sectors with rapidly rising and less volatile export earnings that eventually produce the funds required to meet debt service (Kregel, 2007: 240). But this is highly unlikely under a liberal trade regime since even the standard theory of international trade concludes that the less developed country would end up specializing in the technologically and skill-wise less sophisticated products, i.e. there is no room for the less developed country to achieve structural transformation and be able to substitute imports (and/or export manufactured products) if it engages in liberal trade with a more advanced economy.[4] Furthermore, successfully completing this cycle of structural transformation through net capital inflows is tricky and unlikely under free international capital movements since success makes the country a more attractive investment destination, so there will be a tendency for flows to increase (Kregel 2007: 239), On top of these, foreign direct investment in developing countries tends to go into primary commodity production and other low skill economic activities rather than into manufacturing and other technology and skill-intensive sectors, thereby re-enforcing and locking them into the developmental 'dead-ends'.[5]

In any case, the idea of capital movements from surplus to deficit countries helping to sustainably reverse trade deficits, transforming absolute disadvantage into comparative advantage, and thereby making trade between technologically and productivity-wise unequal partners mutually beneficial is not backed by the historical record. In fact, on balance, resource flows have tended to be from developing countries to developed countries (Kregel, 2004: 3). Moreover, there is now a general recognition that financial flows to less developed countries have been inextricably associated with the problems of unsustainable debt creation and debt burdens, sharp reversal of external flows, and that these two have a strong link with the increasing prevalence of financial crises in countries that had experienced periods of positive external capital inflows (Ibid). In addition, since trade liberalization would mean re-enforcement of existing static comparative advantage of the less developed country in less-skill

[4]Reinert (2004) describes this as the 'winner-killing effect' and Vanek has called it 'the herbicide effect of international trade' and 'destructive trade' (Vanek, 2002). This effect is fully compatible with standard trade theory: under free trade each nation reinforces its comparative advantage – the wealthy nation reinforces its comparative advantage in higher skills in increasing-return industries, while poor nations fall back on their comparative advantage in diminishing-return industries; a comparative advantage in a diminishing return activity is a 'natural advantage' based on nature's bounty, whereas a comparative advantage in an increasing-return activity is a 'created advantage', based on human innovation and skill (Reinert, 2004: 163).

[5]In addition, according to Nurkse (1961, 141; as cited in Kattel, Kregel and Reinert, 2009), trade and foreign investment would engender a number of obstacles to development: namely, first, large parts of such financing would seek to utilize poor countries resources and eventually lock these countries into undiversified economies with a skewed social structure; and second, there is a clear danger that significant amounts of foreign financing would end up funding private consumption patterns emulating Western living standards and thus worsening balance-of-payments problems (Ibid:12).

intensive economic activities, not only will financial capital would move out to more developed economies but also skilled labor tends to migrate out of the less developed economies.[6]

In short, there is no magical mechanism that would transform absolute disadvantage of a lagging economy into a comparative advantage/disadvantage and automatically maintain trade balance. Moreover, it is not difficult to see how import liberalization by less developed countries vs. more advanced countries would lead, among other things, to chronic trade deficits in the less developed countries and the deficits are not transitory but reflections of absolute disadvantage in terms of productivity and technological structure of the less developed economy. Thus, international trade is ruled by absolute (competitive) and not comparative advantage; and as long as the competitive advantage/disadvantages are determined by structural factors such as productivity and technological differences, there is solid ground to expect free trade to reflect and re-enforce these productivity and technological differences. It is also reasonable to expect trade liberalization to lead to worsening of trade deficits in less developed countries vs. their more advanced trading partners.

By definition, chronic trade deficits, which are reflections of underlying technological and productivity structures of the underdeveloped economy, mean that a nation is spending beyond its means and that is unsustainable. Persistent net outflows of financial capital and skilled human resources – both of which are badly needed by the underdeveloped economy to transform the structure of the economy and sustainably reverse the trade deficit – make the situation even worse. Thus, the overall result of across-the-board liberalization of trade would be a vicious downward spiral of underdevelopment set in motion by forced specialization in economic activities that are based on 'nature's bounty', leading to de-industrialization, structural stagnation, chronic (and possibly widening deficits) and debts, capital flight and migration of skilled human resources - all of which re-enforce each other, and could cumulatively keep the underdeveloped economy in a far worse situation than before liberalization. Moreover, breaking this vicious cycle of development would require changing the technological and skill structure and content of exports and imports of the underdeveloped country which in turn requires changing the overall structure of the economy. Unfortunately, as pointed out above, this cannot be done under a liberal external trade regime which forces a country to specialize based on its 'natural' comparative advantage. The fact that both the academic and international development policy discourses of the past few decades have more or less completely left out the agenda of industrialization and structural transformation of underdeveloped countries (Reinert, 2006; Chang, 2010) makes the task of breaking this vicious cycle even more daunting.

4. Empirical Evidence on Trade Liberalization and Trade Deficits in Developing Countries

As noted above, there has been a massive research on the impact of trade liberalisation on various aspects of the economic performance but not on the BOP and in particular, its impact on imports has been virtually ignored (Thirlwall, 2013: 124). And this is part of the overall theoretical and ideological tendency where BOP is by default assumed to take care of itself and trade deficits are virtually ruled out in the underlying theoretical framework of the studies. Moreover, since the 1960s, very little effort was devoted to historical and institutional studies of specific countries; instead, the studies generally employ cross-country regressions or computable general equilibrium models with causal structures favoring trade liberalization already built in (Ocampo and Taylor, 2008: 20).

[6]Gunnar Myrdal calls this 'perverse backwashes' and "backwash effects" of economic development - more capital (both monetary and human) will flow from the poor to the rich countries or regions (Myrdal, 1957:27).

Nevertheless, there have been some exceptions to this trend. The first major studies that looked at balance of payments effects of trade liberalisation were by Parikh for UNCTAD and for WIDER (Parikh, 2002). The first study examined 16 countries over the 1970–95 period and found that trade liberalisation had worsened the trade balance by 2.7 per cent of GDP. The second study examines the data of 64 developing economies over the period 1970–99 and conducts a panel data study on the relationship between trade balance-to-GDP percentages with the growth rates. It also examines quantitative impact of trade liberalization for 14 selected economies that have liberalized at different points of time during the period 1970–91. It found that, in both short and medium terms, the exports of most of the liberalizing countries have not grown fast enough after trade liberalization to compensate for the rapid growth of imports during the years immediately following trade liberalization (Parikh, 2002: 15). Its overall conclusion is that trade liberalisation in developing countries has tended to lead to deterioration in the trade account (Ibid: 16–17).

The next set of studies that analyze the impact of liberalization on imports, exports and balance of trade are those by Thirlwall and his collaborators. For instance, Santos-Paulino and Thirlwall (2004) take a panel of 22 developing countries over the period from 1970s to 1990s and estimate the impact of trade liberalization on export growth, import growth, the balance of trade and current account of the balance of payments. On average, they found that liberalisation raised export growth by 2 percentage points and import growth by 6 percentage points. As a consequence, the ratio of the trade balance to GDP deteriorated by 2 percentage points, and the ratio of the current account to GDP deteriorated by 0.8 percentage points. Based on these results they posit that part of the deterioration in the trade balance could have come from the improved growth performance itself, but trade liberalisation may also have worsened the trade balance autonomously such as to worsen the trade-off between growth and the balance of trade (Ibid). Pacheco-López (2005) surveys studies that assess export performance before and after liberalization and concludes that the exports of most of the liberalising countries did not grow fast enough after liberalisation to compensate for the rapid growth of imports (Ibid: 16).

According to UNCTAD (2004), trade liberalization generally took place as part of the structural adjustment programmes in which most of them were engaged since the 1980s; and thus, it was not part of a negotiated global process of trade liberalization; rather, it was associated with IMF and World Bank policy conditionality for aid inflows and debt relief (Ibid: 182). In addition, LDCs went further than other developing countries in trade liberalization based on the promise of economic success through adjustment, together with the marginalization of LDCs in the context of global private capital flows and their dependence on debt relief and aid (Ibid). Within this context, Santos-Paulino (2007) investigates the effect of trade liberalization on export growth, import growth, the trade balance and the current account of the balance of payments in 17 LDCs over the period 1970-2001. The study found that the process of trade liberalization seems to have worsened the trade balance as the higher import growth contrasted with the more modest export growth following trade liberalization. Moreover, the fact that the impact of trade liberalization on import growth is higher than its effect on export growth implies that the shift to a liberalized trade regime exacerbates aid dependence and, to the extent that aid is not provided in grants and is not building up trade capacity, it has increased the likelihood of another debt crises in the future, as well as the problem of sustainable financing of the trade deficit (Ibid: 15). A study of trade liberalization in Easter Africa (ECA, 2011) also found that most countries in the region experienced worsening of trade balance following trade liberalization compared to the pre-liberalization period. It also concluded that trade liberalization did not lead to any significant change in the structure of production in the region.

Therefore, the few studies that specifically consider the differential impact of trade liberalization on imports and exports and the trade balance in developing countries unequivocally show that, in the case of both developing and least developed countries, liberalization tended to worsen trade deficits due to the fact that it tends to lead to higher growth of imports compared to exports and this has not been a short term, transitional phenomena.

5. Chronic Trade Deficits and Trade Liberalization in Ethiopia

5.1 A Brief Profile of Ethiopia

Located in North East Africa, Ethiopia is a country with a surface area of 1.1 million km^2. With a population estimated to be 99,465,819[7], it is the second most populous country in Africa[8]. The history of the modern day Ethiopian state could be traced as far back as 3000 years where for example, at times, the Axumite Empire of Ethiopia was able to extend direct control beyond the Red Sea and well into the Arabian peninsula, and had trading relations with the Roman empire dating back at least 2000 years.[9] Throughout the millennia, Ethiopia has been a melting pot of diverse customs and cultures; and today, it embraces a complex variety of nationalities, peoples, and linguistic groups where altogether over 80 different languages are spoken[10].

The modern map of Ethiopia took its current shape during the reign of Emperor Menlik II[11] towards the end of the 19thc owing to his extensive territorial expansion towards lands that were inhabited by non-Christian peoples. This territorial expansion was completed by 1898 (Bahiru, 2001). Besides creation of modern day map of Ethiopia, externally, his reign is noted for his successful retention of Ethiopia as the only independent African country during the European 'scramble for Africa'[12] (Ibid). The rough political transition resulting from Menlik's chronic illness and subsequent incapacity engulfed the country in intermittent civil strife and millions of people and livestock are said to have perished in the ensuing rebellions and epidemics (Tenkir1995: 19). The political uncertainty and power struggles within the feudal aristocracy and nobility came to an end only when Haile Selassie I became the Regent and de facto ruler of the country in 1916 and became Emperor in 1930.

While Haile Selassie's regime strove to modernize the country and maintain its independence, due to internal weaknesses (such as weak economic structures, archaic feudalist socio political and governance institutions), and given the geopolitical context of the times, Ethiopia fell under Fascist Italian occupation in1936 but regained its independence in 1941.Haile Selassie's regime collapsed in 1974 under heavy weight of internal conflicts, popular uprisings against feudalist operation in rural areas, famine and food shortages caused by drought, sharp increase in fuel prices following the 1973 global oil crisis, uncertainties about succession, border wars with Somalia, etc.

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[7] Source: CIA Factbook (https://www.cia.gov/library/publications/the-world-factbook/geos/et.html) accessed on 16/09/2015. World Bank estimates it to be 96.51 million (http://data.worldbank.org/country/ethiopia#cp_wdi accessed on 16/09/2015)
[8] July 2015 est.(Ibid.)
[9] Archeologists haverecently discovered "extraordinary" 2000 years old artifacts showing that the Axumite kingdom traded with the Roman empire. (www.archeology.org/news/3385-150608-ethiopia-aksum-burials accessed on 24 Oct. 2015)
[10] *Ministry of Information (MOI) [Ethiopia] 2004: Facts about Ethiopia.* Addis Ababa, Ethiopia: Press and Audiovisual Department
[11] He was baptized as Sahle Maryam (17 August 1844–12 December 1913), was king of Shewaregion of Ethiopia (1866–89), and reined as Emperor ('King of Kings') of Ethiopia up on the death of Emperor Yohannes IV in 1889 until his death in 1913.
[12] A notable example in this regard is his resounding defeat of imperialist Italian army at the Battle of Adwa in 1896.

A group of military officers known as Dergue[13] deposed the emperor and took power on September 2, 1974. Arguably as a pragmatic move, the group declared its allegiance to the Soviet camp in the Cold War and formed a militarist dictatorship in the country. This ushered in 17 years of brutal repression, constant civil war and one of the most horrifying famines in the history of the country due to the drought of 1984-85. Following the fall of the Berlin Wall in 1989 and withdrawal of support from the Soviet Union, the military regime tried to hold on to power by introducing economic reforms, but it was overthrown in May 1991 by a coalition of armed groups led by the Ethiopian Revolutionary Democratic Front (EPDF).

This coalition which came to power at a time when there were 17 armed groups operating in different parts of the country (where most were ethnic based liberation fronts), among other things, instituted an ethnic based federal governance structure, allowed the declaration of independence by Eritrea and introduced wide ranging economic reforms. Within few years of relative peace, in May 1998, border conflict broke out between Ethiopia and Eritrea where triggering a costly war that caused death of tens of thousands on both sides and devastated the nascent economies of both countries.[14] One could argue that the Ethiopian government began to fully focus on economic development only after the end of this war (i.e. during the early 2000s); and ever since, Ethiopia has enjoyed relative peace and stability for a long stretch possibly for the first time in its modern history. Not surprisingly, the economy of the country has been growing by around 10% per year for over a decade now. However, with nominal per capita income at about US$ 631.5 (NBE, 2015), Ethiopia remains one of the least developed countries in the world.

5.3. Historical Overview of External Trade and Its Performance in Ethiopia

The first record of the composition of import-export trade and the state of trade balance of Ethiopia is given by Gebrehiwot Baykedagn (1924)[15]. According to him, in 1912, Ethiopia imported goods worth Birr 7,777,344.00 through the port of Djibouti and imported goods worth Birr 7,585,499.00, i.e. there was small trade deficit of Birr 191,8450.00 (Ibid: 73). With respect to the composition of imports and exports, he shows that Ethiopia's exports were exclusively raw materials such as hides and skins whereas imports were more or less exclusively manufactured products (such as garment and sugar). As a result, he estimated that the price paid per unit of imports was around 7.7 times greater than the price per unit earned from exports (Ibid: 67-68). His theoretical explanation for the trade deficit and the observed terms of trade was that balanced international trade can only take place where the knowledge, skill and technology intensity of imports and exports are balanced (Ibid: 67); and using the import-export data of Ethiopia of that time, he showed that the terms of trade between raw materials and finished manufactured products would invariable be against the raw material exporting country (Ibid: 113-114).

All available data indicate that, ever since Gebrehiwot's writing, Ethiopia has always experienced trade deficits. In fact, with the exception of years 1973 and 1974, when a combination of unusually large receipts from sales of oilseeds and pulses resulted in modest surplus (US$ 26 million in 1973), Ethiopia's trade account has been in deficit.[16] To give a sense of proportion to the deficits, between 1962/63-

[13] Which means 'Committee' in Amharic.

[14] While the war officially ended in 2000 following the signing of the Algiers Agreement, the two countries are yet make peace and their borders remain tense with both accusing each other of proxy wars.

[15] Gebrehiwot was able to collect and compile the import and export data of the country as he was the chief of customs at Dire Dawa, the main import-export gateway of the nation at the time.

[16] *UN Statistical Yearbook* and *UNCTAD Handbook of Trade Statistics*, various years. Befekadu (1992) states, "If one takes the data prior to 1964 as being reliable and goes back to 1948, the first year for which balance-of-payments statistics

1966/67 (1955-1959 Ethiopian Calendar years), the value of imports averaged 13.126% of GDP while exports averaged about 11% of GDP (i.e. trade deficit averaged 2.15% of GDP). As can be seen from Table 1 below, the import coverage of exports which stood at 86% in 1976 went down to just 43% in 1989, i.e. export earnings were able to cover only 43% of the value of what Ethiopia imported during the year. To put it differently, by 1989, imports were about 19% of GDP whereas exports were 8% of GDP - resulting in trade deficit of about 11% of GDP.

Table 1: Import Coverage Ratio of Exports and Export and Import as % of GDP for Selected Years

Year	Export/Import	Export/GDP	Import/GDP
1976	0.86	0.143	0.182
1978	0.64	0.150	0.266
1980	0.586	0.197	0.336
1982	0.472	0.093	0.197
1985	0.419	0.083	0.198
1986	0.420	0.095	0.226
1987	0.353	0.079	0.224
1988	0.340	0.075	0.221
1989	0.428	0.081	0.189

Source: Ghiorgis Tekle (1991: 226)

In order to see why there was a persistent trade deficit over these decades under two very different systems of government – a feudalist-capitalist hybrid imperial regime until the 1974 revolution and a Marxist- military regime from 1974-1991[17] – it is good to look at the composition of imports and exports. As of 1961, the share of agricultural products in export stood at 93.6%. During the period from 1965-1974, on average, coffee accounted for 49.05% of the total export earnings followed by oilseeds (10.76%), hides and skins (10.34%) and pulses (10.04%) (Gebreigzaber, 2003: 45). In other words, about 80% of Ethiopia's export earnings came from four primary commodities and about half of the total from a single commodity (coffee). During the Military-Marxist regime (1974/75-1990/91, on average coffee accounted for 57.6% of the country's export earnings, followed by hides and skins (10.74%) and pulses and oil seeds (7.33%) (Ibid: 51-52). That is, just these three primary commodities accounted for 76% of the country's export earnings (and a total of six primary commodities accounted for 81% of the export earnings) (Ibid).

In short, up until 1991, Ethiopia's exports were almost exclusively primary commodities with very high level of dependence on an extremely narrow range of export items. It is a well-known fact that international prices for these commodities are highly volatile. Since the production of these commodities is almost exclusively reliant on traditional farming techniques that rely on rainfall, and

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are available, the surplus years would increase to six" (Ibid: 28).

[17] With respect to external economic policies, the Imperial Regime came up with clear strategies since the mid-1950s where its plans envisaged to achieve industrial development through the development of import-substituting light industries which produced consumer goods for the domestic market (Mulu Gebreeyesus 2013: 5). The regime anticipated that foreign direct private investment would play the leading role in financing the investment capital required for the sector and introduced various policy measures to encourage investment in manufacturing including protection of the domestic industry through high tariff and banning of certain imports, fiscal incentives, and provision of credit (Ibid). Meanwhile, the Military Regime pursued reorganization of the economy and society on the basis of the classic Soviet model and discouraged foreign investors (Befekadu, xx: 15). Furthermore, private investment was restricted to not exceed half a million Birr (approximately a quarter of a million US$); imports were subjected to quantitative restrictions and higher tariffs; and the Ethiopian national currency, the Birr, was set fixed at about 2.07 per US$1 and continued at this rate throughout the period of the military regime (1974/75-1990/91) (Mulu Gebreeyesus 2013:. 7)

since the region is known for erratic rainfall and recurrent droughts, the national output of these products has always been highly volatile. In fact, reading through the *Annual Reports* of the National Bank of Ethiopia, one almost always finds mention of good/bad international prices for primary commodities (particularly coffee) and good/bad rainfall in the country as having made positive/negative effects on the export performance of the country.

On the import side, between 1974/75-1990/91, of the total expenditure on imports, capital goods accounted for 36.32%, consumer goods accounted for 29.69%, fuel accounted for 15.56% and semi-finished products accounted for 14.54% (Gebreizeabher, 2003: 53; See also Ghiorgis, 1991: 225). In other words, the vast majority (in terms of value) of the country's imports are composed of machinery, equipment and other manufactured products. Therefore, it is no wonder that the country had suffered persistent and generally worsening trade deficit throughout these decades as it had essentially been exchanging primary commodities for capital goods and other manufactured products – i.e. low skill, low technology, low value-added commodities for products that employ and embody much more technology, value-added and knowhow. Thus, the persistent and growing trade deficit reflected the technological and skill structure of the exports and imports of the country.[18]

5.3. The Liberal Era and Trade Deficits in Ethiopia

As mentioned previously, the Military-Marxist regime was overthrown in May 1991 by a coalition of armed groups led by the Ethiopian Revolutionary Democratic Front (EPRDF). This coalition inherited an economy devastated by wars and conflicts and a nation that was at a risk of disintegration along ethno-linguistic lines. Whereas the military regime that came into power in 1974 had nationalized all private large and medium scale manufacturing firms, and unsuccessfully pursued an import-substitution strategy combined with a command economic system[19], the EPRDF regime immediately began extensive policy reforms to transform the economy into a market oriented one. In spite of its Marxist-Leninist ideological background, it was forced by circumstances - such as dire need for external resources to reconstruct the war devastated economy and the global policy environment dominated by the market fundamentalist Washington Consensus -to adopt a structural adjustment program focusing on trade liberalization and macroeconomic reform in 1992/1993. Six successive tariff reforms were implemented between 1993 and 2003 where in the first round (August 1993) the maximum tariff was reduced from 230 to 80%; and by the sixth round, the maximum tariff rate stood at 35% and the average was brought down to 17.5 from 41.6% prior to 1993 (MoFED, 2006).

As part of the overall liberalization drive, and with the aim of increasing exports and decreasing imports (and hence in order to narrow the trade deficit), the EPRDF government devalued the Ethiopian Birr by

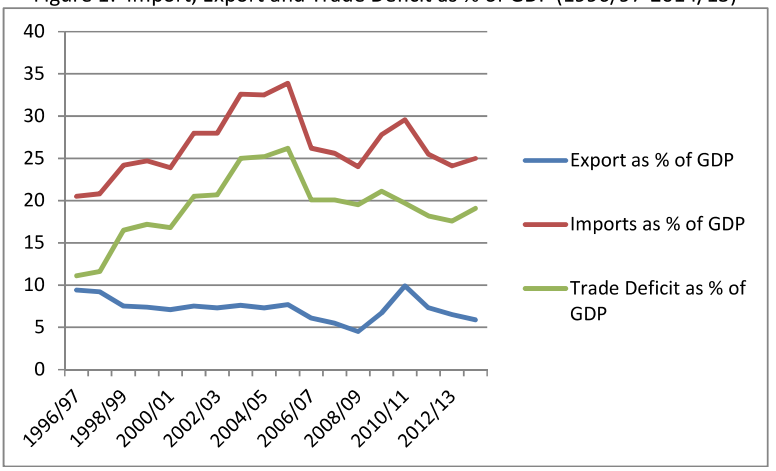
[18]The deficits were covered mostly through official assistance in the form of grants and long-term public credit from multilateral and bilateral sources. While the largest proportion of the credit came from multilateral institutions such as the World Bank and the African Development Bank, "[t]he country has borrowed from all willing sources without making any distinction on grounds of ideology or the level of their development" (Befekadu, 1992: 25). Notably, the BOP data for the period 1974-1991 indicates that there was virtually no foreign private sector credit, and that, there were very minimal short-term loans (Library of Congress 1993: 345). In any case, by 1987, Ethiopia's total external debt amounted to US$2.6 billion, of which US$2.4 billion was long-term debt (excluding military debt); and it was estimated that, during the Ethiopian Financial Year 1986/87, the cost of servicing this long-term debt was 28.4% of export earnings and was projected to rise to 40% of export earnings by 1990 (Ibid: 203).

[19]With respect to foreign exchange policies, the military-Marxist regime (1974-1991) not only adhered to the fixed exchange rate but also tried to solve the problem of hard currency shortages by administrative rationing where it was mainly allocated to public enterprises; but the private sector importers took place under Franco Valuate System where the importer had to furnish his/her foreign exchange (Derese, 1996).

241.5% in 1992 in nominal terms (Derese, 1996). With the same objective, measures such as provision of fiscal incentives to exporters, the replacement of quantitative restrictions with tariffs, encouraging export-oriented investment and minimizing administrative and bureaucratic procedures were stressed (Berhanu, 2003: 14). In addition, export licensing procedures were streamlined and the bureaucratic trade licensing chains were abandoned; and with the view to enhance export competitiveness, all taxes on exports (except coffee) and subsidies to parastatal exporting enterprises were abolished as of December 1992. Other export promotion measures include export trade duty incentives scheme, export credit guarantee scheme (introduced since 1999) and foreign exchange retention scheme (Ibid: 15). In fact, export promotion has been one of the main policy focuses of the EPRDF regime to the extent that almost all economic policy related documents of the government over the past 24 years keep on stressing how important increasing export earnings is in order to reduce the trade deficit and earn the much needed hard currency (E.g. MoFED, 2000: 11).

Have the liberalization and export promotion derives paid off and reduced trade deficits of the country over the past two decades or so? The data unequivocally shows that this did not happen not because exports failed to grow but imports kept on growing even faster. To begin with, the year 1991/92 was the worst export performance year as depicted by the significant fall in exports (real export growth rate was –44.4%) and the lowest ever recorded (1.53%) export/GDP ratio (Berhanu, 2003: 17). This was due to the fact that the civil war had just ended but there weresignificant political uncertainties and instability during this transition period; and in fact, such a declining trend has started in 1989/90 following the intensified civil war at the twilight of the military regime. The change of regime and the restoration of peace, the introduction of market oriented economic policies and the accompanying economic reform program helped to reverse the deteriorating of export performance whereby real export growth rate turned positive and stood at 44.6% in 1992/93, 10.5% in 1993/94 and 84.5 % in 1994/95 (Ibid: 17-18). A pick-up was also recorded in the export/GDP ratio, which increased to 3.6%, 5% and 8.4% in 1992/93, 1993/94 and 1994/95, respectively (Ibid: 18). The following diagram shows the developments in imports and exports from 1996/97- 1913/14 (1989-2006 E.C.) fiscal years with respect to GDP.

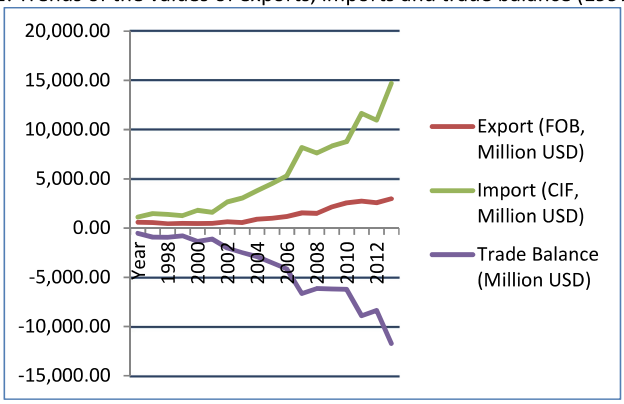
Figure 1: Import, Export and Trade Deficit as % of GDP (1996/97-2014/15)



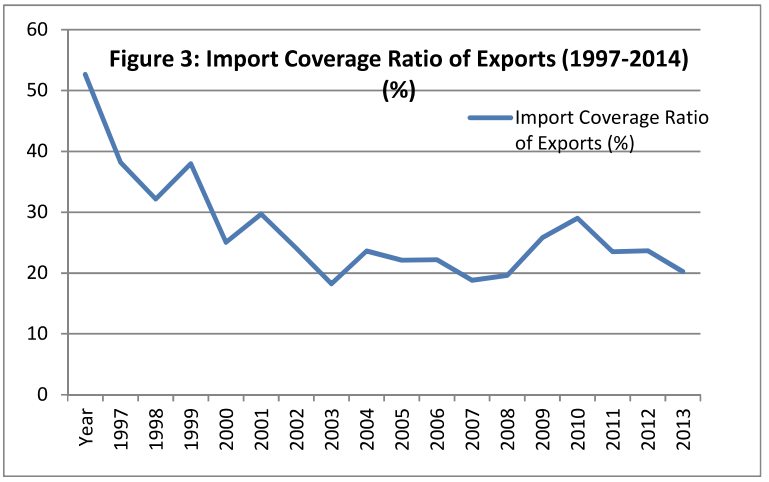
Source: National Bank of Ethiopia, *Annual Reports,* Various years.

As can be seen from the above figure, exports as percentage of GDP declined from 9.4% in 1996/1997 to 4.5% in 2008/09, then picking up a bit but going down to about 5.9% in 2013/2014. Meanwhile, imports stood at 20.5% of GDP at the start of the period, reached the highest level at 33.9% in 2005/06 and stood at 25% in 2013/14. Consequently, trade deficit which stood at about 11.1% of GDP at the beginning of the period reached its maximum of 26.2% in 2005/06 and stood at 19.1% in 2013/14. Figure 2 below considers the same developments in the form of actual monetary values. Accordingly, over the 18-years period between 1997- 2014, the value of Ethiopia's exports grew from US$ 587.15 million to US$ 2,978 million, an increase of 500% in nominal terms. Meanwhile, the value of imports increased from US$ 1,115.26 million in 1997 to 14,718.28million which is an increase of 1,319%. As a result, the trade deficit which stood at US$ 528.11 million in 1997 increased to US$ 11,740.36 million in 2014, i.e. in nominal terms, 22 times what it was in 1997. Furthermore, as can be seen from Figure 3, the import covering capacity of export earnings of the country which stood at about 52.64% in 1997 dropped to 20.23% in 2014. These developments happened not only due to the initial gap between imports and exports but because, over the course of the 18 years under consideration, the value of exports grew on average by 11.87% while that of imports grew at 18.46% per year.

Figure 2: Trends of the values of exports, imports and trade balance (1997-2014)



Source: Computed from ASYCUDA database of Ethiopian Revenue & Customs Authority, various years



Source: Computed from database of Ethiopian Revenue and Customs Authority, various years

In summary, over the liberal 18 years, the trade deficit of Ethiopia widened on average by 23.8% per annum. Consequently, if the current trend in the growth rate of export earnings and imports values continues, it is absolutely impossible to ever close the gap. Even in the unlikely case where we assume 0% growth rate in value of imports, the exports earnings of the country need to grow on average by 17.33% per year to achieve trade balance in, say, 10 years' time. However, if import growth continues at 18.46% per year (the average growth rate of the past 18 years), the export earnings of the country need to grow by 39% per year in order for the country to achieve trade balance in 10 years' time. Therefore, the legitimate question here would be: how can the country ever be able to achieve balanced external trade over the foreseeable future? Before we attempt to answer this question, once again let us look at the underlying causes of the deficit via the composition and structure of what the country has been trading.

Table 2: Value Share (%) of Major Export Items of Ethiopia (2009/10-2013/14)

Export Item	2009/10	2010/11	2011/12	2012/13	2013/14
Coffee	24.4	30.6	26.4	24.2	21.9
Oilseeds	17.9	11.9	15	14.4	20
Leather & Leather products	2.8	3.8	3.5	3.9	4
Pulses	6.5	5	5.1	7.6	7.7
Meat & meat products	1.7	2.3	2.5	2.4	2.3
Fruits & vegetables	1.6	1.1	1.4	1.4	1.4
Live animals	4.5	5.4	6.6	5.4	5.7
Chat	10.5	8.7	7.6	8.8	9.1
Gold	14	16.8	19.1	18.8	14
Flower	8.5	6.4	6.2	6.1	6.1
Other products	7.6	8	6.6	7	7.6
Total	**100**	**100**	**100**	**100**	**100**

Source: *Annual Report* of National Bank of Ethiopia, various years

As can be seen from Table 2 above, in recent years, Ethiopia has experienced significant level of *horizontal diversification* of exports. For instance, the share of coffee in export earnings which averaged 76% between1974/75-1990/91 has declined to less than a quarter in the latest five years whereas the share of oilseeds and pulses has increased from 7.33% during the same period to 22.22% over the same period. Other major changes include gold and *chat*[20] becoming very important export items. However, there has not been any significant vertical diversification: over the latest five years, the country obtained on average 89% of its export earnings from primary commodities. Looking at the composition of imports, capital goods accounted for 26.8%, 31.2% and 32.8% of the import bill of the country in the fiscal years 2011/12, 2012/13 and 2013/14, respectively. Similarly, (manufactured) consumer goods accounted for 31.9%, 30.1% and 27.9% during these three fiscal years, respectively. Semi-finished products including fertilizers accounted for 16% of the import bill whereas fuel imports accounted for an average of 18.87% over the three-year period. Therefore, there has not been any substantive change over the decades with respect to the major constituents of Ethiopia's imports.

Thus, in effect, the ever-widening trade deficit of the country is closely related to the content and structure of it exports and imports: the vast majority of its exports are low value added primary commodities while the vast majority of its imports are high-value added industrial products. In other words, the persistent trade deficit is a reflection of differences in the technological and knowledge intensity of the products exchanged. Moreover, this does not appear surprising when we look at the bigger picture of the productivity growth and change in the economic structure of the country. For instance, Alemayehu (2005) found that total factor productivity growth was virtually negative throughout the period 1960-2000, except in early 1970s, and that the economy had been operating with extremely backward technology, and had been vulnerable to external shocks (terms of trade and weather outturn) (Ibid).

Meanwhile, until recent years, the main objective of the economic policy of the EPRDF regime had been poverty reduction *and not structural transformation or industrialization*.[21] It is only since 2010 that the government began to stress the importance of structural transformation and development of the manufacturing sector[22]. As a result, even if the country has been registering some of the highest economic growth rates in the world for more than a decade now, the structure of the economy has failed to transform in the right direction: the share of agriculture in the national economy has declined from 43% in 1999/2000 to 39.9% in 2013/14 (and the sector still remains essentially predominated by backward production methods by small holder farmers and pastoralists, almost fully dependent on rain), that of the service sector from about 41% in between 1995-2000 to 45.9% in 2013/14 whereas the share of industry increased from about 13% in 2000 to 14.2% of GDP in 2013/14 (Alemayehu, 2005; NBE, 2015). It has to be noted that even within the industry sector, manufacturing contributed just 4.4% to real GDP of the country as of 2013/14 fiscal year (NBE, 2015: 4).

Thus, it is this failure of structural transformation which is being reflected in the contrasting structure and technological content of the imports and exports of the country, which, given the well-known nature of trade between primary commodities and manufactured products, is being reflected in the persistent and ever widening trade deficit of the country. And though analyzing how the country has

[20]Or Khat, a plant whose fresh leaves are chewed for stimulation and recreation.

[21]For instance, the IPRSP issued in 2000 states, "Reduction of poverty will continue to be the core of the agenda of the country's development" (MoFED 2000: 8). The full PRSP issued in 2002 once again states, "Poverty reduction is the core objective of the Ethiopian government" (MoFED 2002: i). The second iteration of PRSP (2005/06-2009/10) also states, "The main development objective of the Ethiopian Government is poverty eradication. Hence, the country's development policies and strategies are geared towards this end." (MoFED 2006: 1).

[22]With the formulation of the Growth and Transformation Plan (2010/11-2014/15) (MoFED, 2010).

been able to finance the trade deficit over the years and the overall trend on the balance of payments of the country is beyond the scope of this paper, we can note the fact that hard currency shortages mainly resulting from the merchandise trade deficits are considered by the government as well as the international financial institutions such as IMF as one of the biggest challenges that the Ethiopian economy is facing. In fact, according to IMF (2014), the average gross official reserves of the country for the fiscal years 2011/12-2014/15 were sufficient to cover just 1.94 months of imports of goods and nonfactor services of the following year (Ibid: 30).

5. Concluding Remarks

We have seen how the strong belief in the benefits of liberalization has been founded on standard trade theories that assume full employment of resources and continuous and automatic balancing of external trade and how these results fail to hold once the assumption of full employment and quantity theory of money are left out - with the implication that trade deficits could become persistent features of primary commodity exporting countries as they reflect the productive structures and productivity differentials between the trading partners. The available empirical evidence also shows that trade liberalization by developing countries has actually worsened their external imbalances because it led to higher growth in imports than exports. The evidence confirms the theoretical conjecture that liberalization tends to solidify and amplify the existing productivity and technological differences among trading partners rather than bringing about 'equality' among technologically advanced and backward nations.

Our analysis of the external trade performance of Ethiopia under very different political/governance regimes over the course of close to a century has shown that trade deficits are indeed fundamentally structural features of this low-skill, backward technology-based economy rather than a transitory phenomenon. In fact the data over the course of decades shows that the persistent and ever-widening trade deficit of the country is simply a reflection of the composition and contrasting nature of what the country exports and imports, i.e. the root cause of the deficits is the fact that the country exports low-value added, low skill and technology intensive primary commodities while importing more skill- and technology-intensive products. This structural trend has just been amplified and reinforced by the liberalizations that began in the early 1990s which led to disproportionately higher growth in imports compared to exports. As a result, the export promotion drive of the government and its international partners has utterly failed to reverse this trend.

Therefore, we conclude that, since the root causes of the country's persistently widening trade deficits are structural in nature, the only way to sustainably address them is by changing the overall productive structure of the economy thereby changing the technological structure and composition of exports, and by reducing over dependence of the nascent economy on imports. As for the theories and empirical models that are the backbone of the academic and policy discourse on international trade, the lesson that can be drawn from this case study is that, in contexts like Ethiopia where trade has never been balanced and unemployment has always been one of the biggest policy challenges, assumptions of automatically balancing external trade and/or full employment are clearly contrary to reality and hence inappropriate to say the least.

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2014–2018 PhD (tehnoloogia valitsemine) – Tallinna Tehnikaülikool, Ragnar Nurkse innovatsiooni ja valitsemise instituut
2004–2006 MSC (rahvusvaheline majandus) – Addis Abeba Ülikool
1997–2001 BA (majandus) – Addis Abeba Ülikool

Keelteoskus

inglise keel – Kõrgtase
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Teenistuskäik

02/2017– praeguseni nõunik (uuringud, seire ja hindamine), UNHABITAT Ethiopia

12/2017–02/2018 nõunik (tururegulatsioonid ja mitte-tariifsed meetmed), ÜRO Rahvusvaheline Kaubandusorganisatsioon (UN International Trade Centre)

11/2016–01/2017 riiklik ekspert (andmete analüüs ja raporti koostamine "Ethiopia: Company Perspectives – an ITC Series on Non-Tariff Measures"), ÜRO Rahvusvaheline kaubandusorganisatsioo

11/2015–10/2016 ekspert (mitte-tariifsed meetmed), COMESA (Common Market for Eastern and Southern Africa)

06/2015–08/2015 nõunik (mitte-tariifsed meetmed), UNHABITAT

2012–2016 juhtivpartner, Renaissance Consultancy PLC (juhtimis-, arengu- ja majanduskonsultatsioonid), Etioopia

11/2009–06/2012 majandusekspert/ökonomist, UNDP South Sudan Programme (Poverty Reduction & MDG Unit), Juba, Lõuna-Sudaan

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11/2006–04/2008 majanduse ja ettevõtluse andmebaasi haldur ja analüütik, majandus ja ettevõtlusosakond, Etioopia välisministeerium

10/2001–11/2006 lauaametnik (EL, Kanada, Saksamaa, UK), Euroopa ja Ameerika osakond, Etioopia välisministeerium