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## Challenges of Current Industrialization Process in Ethiopia

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### Abstract

*Despite of country's economic growing rate, the current process of Ethiopian Industrialization challenged by political disruption by social unrest which shock the ruling party which has been on power for more than 20 years. In addition, land grabbing in both rural and urban areas, corrupted senior and lower level officials from top to down, lack of skilled man power and shortage of foreign exchange were the major constraints of current Ethiopian industrialization processes. Furthermore, the Ethiopian industrial policy implementation lacks effectiveness because of shallow policy guides and monitoring and controlling.*

**Keywords:** Industrialization, political instability, land grabbing, corruption

### 1. Introduction

Industrialization is a means to build capacity of a nation to process raw material for consumptions or further production even though it is not the end by itself (Todaro 1985). In another words, industrialization involves over all structural transformation of an economy which is driven by high productivity in manufacturing (Tartu, 2013: Jorg Mayer, 2004). This clearly necessitates growing application of science and technology in production (Raphael Kaplinsky, 1998). It is true that majority of the investments in developed countries are on science and technology (UNIDO, 2016). But, industrialization also involves social changes like tendency toward urbanization, growing wage earners, increased technical and advanced education. Hence, many governments have considered industrialization as the key for fastest economic development and growth (Kar-yiu Wong and Chong K. Yip 1999).

The share of poor people in global population has declined due to rapid industrialization of countries like China, the Republic of Korea (Korea), Taiwan and Indonesia (Matleena Kniivilä.). Industrialization targeted to provide employment for labour force, increase GDP, supply consumer, capital and intermediary goods, support agriculture and service sector and improve balance of payment (M. A. Rashid Sarkar----) and all these are mainly when industrialization comes with structural and technological changes in manufacturing (UNIDO, 2016). In addition, modern industry is a key to raising saving and investment rate, fastest rate of labour move from traditional and low productivity of agricultural practices to modern sector which contribute to fastest economic growth (UN, 2007). As Pual stated (1987) American industrialization is mixed blessing, it raised living standard by making some goods cheaper and easier to acquire and created USA as world economic and military power. In 2011, Thailand reached in to upper-middle-income status, after it had gone through considerable industrial and social transformation, from agriculture to industrial export oriented, integration of key manufacturing industries such as automobile and electronics and other economic diversification in to tourism, health care and other services (ADB, 2015). The experiences of these earlier and late industrialized countries clearly indicate that industrialization played all-round structural transformations to bring both social and economic development of a nation.

From the experience of the late industrializers like Germany, Japan and South Korea, the nation's economic development was the result of changing policy options. For instance, in Early Late Industrialization of Japan, there were policies that create marketing system which facilitated industrial development (John Zysman and Eileen Doherty, 1995). In similar manner, the industrialization success of South East Asian is partly originated from alternative and supportive government policies. The success history of Thailand industrialization is the result of its establishing of effective social and education policies which led to promoting regionally balanced growth and development (ADB, 2015). In addition to this, the industrialization of Soviet Union during 1928-40 mainly derived by policies and economic mechanisms taken by Stalin government (Anton Cheremukhin *et.al*, 2015). According to Kevin P. Gallagher (2010), the china's industrialization strategy has been pronged policies aimed at creating productive domestic capacity through giving attention to science and technology, giving support for domestic industry and economic reform using market and trade as a means of development. But, in Latin America and Caribbean countries, free market and trade through learning was considered as an end by itself to enhance industrialization and promote growth. In spite of its planning and financing challenges of implementation, the 10<sup>th</sup> Assembly of AU held in in Addis Ababa, January 2008, affirmed that prosperity and socio-economic improvement is not achievable without robust industrialization. Hence, these African Heads of State and Governments adopted the Action Plan for Accelerated Industrial Development of Africa (AIDA).

The evolving and dynamic nature of industrialization policies and structural reforms of many developed and Least Developed countries have been challenged by lack of understanding how these policies and structural transformation support the development in a coordinated fashion and technological capabilities (UN, 2007). For instance many developmental states of East Asian countries including China have been suffered from income inequality, except South Korea and Taiwan where income distribution was relatively even. As Cornia stated (2005) the income inequality of these countries are mostly due to the industrial concentration in only some cities (Eastern coastal cities of China, Bangkok in Thailand), highland concentration and lack of access to education public services. During 1990s, the social cost of rent seeking and only vested interest group exporters (in Thailand) activities also threatened the industrialization of these Asian countries (Somboon Siriprachai, \_\_\_). It is also true that some parts of Indonesia, India, Mexico and Brazil were less developed in the same manner (Matleena Kniivilä, \_\_\_). African incapability to compete in Global market has been resulted from multifaceted and interrelated factors (Mwangi wa Githinji and Olugbenga Adesida, 2011). Despite of its variation, the post independency of African nation's industrialization was under challenges of less development of science and technology, political instability, insufficient financing, corruption, negative balance of payment, low infrastructures, weak institution and management, unbalance of economic and population growth rate and government policy.

Ethiopia became federal state in 1994 when the Ethiopian People's Revolutionary Democratic Front toppled the Derg Regime. The country is divided in to nine regional states with two self-administrating cities (Addis Ababa and Dire Dawa). Addis Ababa which is the capital of the country also hosts African Union Head Quarters and other international Organization. The country is also member state of COMESA (Common Market for East and Southern Africa). This is the fact that the country is playing influential role in African Politics.

Despite of government effort to bring the country toward industrialization and achieving the vision that Ethiopia would be among middle income countries, the industrialization process has been jeopardized by political, social, economic and environmental challenges. Hence, the aim of this investigation was to discuss, specifically, the political instability, land grabbing, corruptions and policy implementation as challenges of current Ethiopian industrialization processes.

## 2. The Ethiopian Industrialization Processes

Since 1990s, Ethiopian industrialization has undertaken extensive structural reforms to bring the country toward market economy (Mulu Gebreeyus, 2017). This first step was started by adopting the structural adjustment programme guided by international financial institutions mainly World Bank and IMF. In mid 1990s the government also formulated Agricultural Development Led Industrialization as its development vision. The voracious appetite was that under full-fledge of all necessary inputs and creating and integrating markets for agricultural products, the ADLI would be the engine for economic growth. To strengthen the role of ADIL in increasing export volume to alleviate the trade balance problems the Export Promotion Strategy (EPS) was adopted in 1998 which later on developed in to Industrial Development Strategy (IDS) in 2003. According to Mulu coffee, oilseed, horticulture, meat, cotton, clothing, leather, and minerals were the targeted products for products for export promotion and incentives.

According to African Economic Out Look (2016) Ethiopia has experienced double-digit economic growth, averaging 10.8% since 2005. This makes it the second fastest economic growth in Africa next to Angola which is the result of year's investment, economic and social reforms and relative political stability in the country (Dellot, 2014). The dependency on agriculture also decreased from 56% to 46% of GDP since 1980s. The IMF report of 2016 also evident that although this growth initially led by agriculture the contribution of service sector and export diversification getting rise. The country profile update by World Bank Group 2018 also indicated higher economic growth trend which had been contributed by poverty reduction in both rural and urban areas. The extreme poverty was declined from 55.3% from 2000 to 33.5% in the year 2011. Further, it was also projected the poverty will be decreased to 21% in the year of 2020. However, due to political disruptions of social unrest and State of Emergency in the country which have negatively contributed to the FDI, tourism and exports the economic growth rate recently declined to about 8%. The country is currently implementing the second Growth Transformation Plan (GTPII) to 2019/2020 which will run to 2019/20, aims to continue work on physical infrastructure through public investment projects, and to transform Ethiopia into a manufacturing hub. Growth targets are an annual average GDP growth of 11%; in line with manufacturing strategy, it also hopes the industrial sector will grow by an average of 20%, creating jobs (The World Bank, 2018). The emphasis was also given to private sector development and FDI, specifically export-oriented manufacturing sectors. Furthermore, the strategy focused on light labor intensive manufacturing like apparel, textiles, agro-processing and electricity which capitalize the country on competitive advantages through promoting industrial parks. Hawassa Industrial Park and second phase of the Bole-Lemi Industrial Park have started operations and are set to increase manufacturing exports and contribute to the diversification of exports. FDI is projected to increase from US\$4.9 billion in 2016/17 (5.2 percent of GDP) to US\$7.1 billion by 2021/22, and is expected to average 6.2 percent of GDP over this period (IMF, 2018). To support export and private sector, the National Bank of Ethiopia introduced Birr devaluation and ccdemonetary and fiscal policy measures to control inflation by 15% in October 2017. Despite of the controlling mechanisms introduced, the inflation accelerated to 13.5% by the fall of 2017.

The country has been undertaking extensive constructions (roads, airports, hotels, and communication networks) which contribute to the structural transformation and achieving the objective of industrialization. The expansion of construction industry subsector has been seen as the basic for other industries in import inputs (capital and material goods) and developing domestic supplies. According to African Development Bank Group (2011-2015) construction subsector value added increased by 11% per annum, on average. The hydro-electric power construction enabled the country to export the power to Sudan and Djibouti and the transmission lines were being constructed to start exporting it to Kenya. The Addis Ababa- Djibouti Rail way construction also expected significantly reduce transportation and logistics costs and create complete advantage for many firms.

The contribution of mining also expanded as a result of new investments on fresh discovery of gold, tantalum and potash reserves. In this regard little investment had been done before. However, recently, global mining companies such Vale, BHP Billiton and Petronas are a few which showed their interest. For instance, Ethiopia is the second largest producer of Opal in the world and has been exporting since 1980.

### 3. The Challenges of Current Ethiopian Industrialization

#### 3.1. Political Instability

In 2012 when the former prime minister of Ethiopia, Meles Zenawi, died the country's politics underwent passive transmission. No longer, the Ethiopian government, in 2013 and 2014, started harassing and imprisoning massive figures from political opponents (reportedly many from Oromo Federalist Congress and Blue Party), journalists, human right activists and other representatives of civil society and Muslim community (BTI, 2016). Within the same year, the ruling party brought the controversial agenda of Addis Ababa Master Plan (the issue was first exposed by the party cadre mostly from OPDO) which was suspected for its hidden radial expansion of the city in to the Oromia regional state by encroaching surrounding Finfine Special Zones. This invited protests of Oromo students and later on accompanied by civilians and farmers from all parts of Oromia region which demanded the cancellation of the master plan. Because, this so called Integrated Development Plan was believed to be at the expense of the surrounding Oromo farmers and hidden long run political sentiment which would threat historical, social, cultural, economic and political attachment of the Oromo people to the city in general. As the elites and activists disclosed the protests to the world it engulfed all Oromia zones in which the government attempted to dissolve it violently. Many killed, thrown to prisons and tortured. According to African Conflict Detail, 2015, the government security forces took violent measures against protestors result in 50% fatalities. However, this was totally antagonistic to demonstrator's reaction of 90% peaceful protests. In the midsummer 2016, 'The Great Oromo Protests' erupted with in more than 200 towns of Oromia Regional state and spread to the neighboring Amhara regional state. Following this mass protests the government declared the first state of emergency, October 2016, which limited freedom of assembly, association and expression. But it gave the government a period of relative calm and announced anti- corruption reforms, cabinet reshuffles, a dialogue with what was left of opposition political parties, youth job creation, and commitments to entrench "good governance" instead of addressing the grievances of the protestors. The first ten month state of emergency and its four month renewal ended and left by the government through announcing the relative political stability achieved by state command post. But, this was not the real achievement of the command post. The period also gave the time for the protestors and activists to design short term tactics and long term strategies to kneel down the ruling part which had been shock by the mass and continuous protest. It did not take more time specially in Oromia to organize (led by 'Qerro') the peaceful approach of protesting by declaring road blockage, closing market places and shops, boycott, to some extent closing government working days and oil supply and transportation blockage (relatively less effective). These were implemented in almost all parts of Oromia. The tactics were also crossed to Amhara region and parallel implemented. Within the same year the government released many political prisoners and journalists because of internal and external influences which pressurized the ruling party to open political space for opposing parties. When the political figures like Dr. Merera Gudina, Bekele Gerba and other OFC leaders released and other journalists and activists the protests reach its apex in the name of welcoming their political leaders in which one should note that welcoming was regardless of the members of this political party. The scene was in all zones of Oromia regional state and also spread to Amhara region. After few days the ruling party felt threat of these mass protests in fact the government was confused whether it was support or protest against it. As result, during this article was under review the second state of emergency declared on 20 February, 2018 in the name of safeguarding the country Constitution, the Constitutional Order and the peace and stability of the people in some restricted areas of the country by empowering the state command post chaired by Prime Minister and Defense Serves Secretary.

The government security's severe responses to dissolve during this prolonged protest led to attacking of some manufacturing and agro-business companies which were suspected their ownership and holding share were by some ruling party figures. The farmers also blamed the central government that their land had been taken away without enough compensation and given to the investors. According to Paul Schemm (2016), the attack was become ferocity and revenging target immediately, after the 'Irrech Festival' was result in many deaths. As a result, many foreign investors shy away from the country and evidenced Ethiopian industrialization was at risk. Furthermore, the political instability due to continuous protests the tourism subsector was highly hit and declined.

#### 3.2. Land Grabbing

As it was phrased by Rehamato (2011) land grabbing is the rushing for land by private and sovereign investors for the production of exported agricultural products in which its dealing benefits the investors at the expense of local people. According EFDRE constitution 1995, the land is under the ownership of Ethiopian Nations, Nationalities and People of Ethiopia. This gave state (government) full right to control the land and no land held by private owners. By using the state statutory right the government ignored the customary ownership (commonality and inheritance) and rights and rights of longstanding usage of peasant farmers and pastoralists and have been transferring the land to the outsiders (both nationalities and sovereign) in the name of investment at incomparable compensation (Rahmato, 2011). No readily available rules for accessing rural land and for investors to apply at national and regional agencies (World Bank, 2012). This report also disclosed that weak policy and legal framework and poor system to implement it facilitated for land grabbing by some elites and senior officials. According to Los Angeles Post (2016), the local people started opposing foreign farming and manufacturing projects, which they saw as encroaching on their land. The government from

top(federal and regional) and bottom woreda (district) and an urban administrations commercialized land for political advantages by using government land ownership(Malkamuu Jaatee, 2016). A number of peasants expropriated and their land was leased out to private investors. In some case the land lease has taken for speculative purpose or to take tax advantages and financial privileges (James Keely, 2014). Despite government motives to transfer uncultivated or unused land to productive resources to change the life and livelihood of the communities, the practice resulted in the adverse effect on food security and extreme peasant farmers and pastoralist's poverty. Specially the situation was more pronounced in surrounding capital city of Addis Ababa where farmers who were displaced from their land with none life and livelihood changing compensation became homeless, deteriorated life compared with before and many evidenced that they have been working as physical labours and employed as guard on their previous land. Further, many of them were registered to be recompensed for previous unfairness by Addis Ababa City administration during this article writing undergone.

### 3.3. Corruption

In a country with high level of corruption, the business may contribute to its worsening rather its economic effect. Because, many people use bribery to speed up administrative procedures. From the mid-1970 industrialization entities established as import-substitution marked by inefficiencies due to high rate of corruption which led to balance of payment deficiency and rising debt. As indicated by Corruption Perception index reported by Transparency International, Ethiopia was ranked as the most corrupt nation over the world(Ethiopian Review, 2016) According to World Economic Forum's Global Competitiveness Index (2014 and 2015), corruption is one of the top five problematic constraints of doing business in Ethiopia(World Bank Group, 2016). In many occasions it has been also stressed that corruption is also one of the top concern of foreign investors. Regardless of the establishment of Federal Ethics and Anti-Corruption Commission (FEACC), corruption has been a serious problem and contributed to wastage of scarce resources in which ruling party elites have been benefited from. The FEACC has been toothless because its investigations have been lacked information on state spending and the behavior of office holders to fight against corruption. From, the nature of the de facto of single ruling party, there were few institutional check and balances. On some occasions, the government prisoned some military officers and civil servants in charge of corruption merely for political motives. Officials of ruling party who dominate state institutions reportedly enjoy preferential credit access, land lease and job. The lower level officials solicit bribes in return of processing documents. For instance, the investigation conducted by FEACC on five sub-cities of Addis Ababa indicated without bribing administration officials it was impossible to get a plot of land.

### 3.4. Other Challenges

Shortage of skilled labour is the bottleneck than needs to be addressed to industrialize and expand the manufacturing sectors in Ethiopia. Low productivity and lack of competitiveness of these manufacturing industries have been largely because of lack of skilled man power. According to World Bank (2012), poor supply of appropriate skilled labour was one of the obstacles to improve the competitiveness of manufacturing sector in Ethiopia. Further, Chinese firms in Ethiopia held to be back by lack of skilled labor and foreign exchange which needs due attention from Ethiopian government.

Facilitating access to credit and foreign exchange for private sectors play important role to address competitiveness and promoting exports. Ethiopia has also faced critical shortage of foreign exchange which feared to have negative impact on the economic growth momentum. Due to shortage of hard currency in the country there have been shortage of construction materials and some other consumable commodities which were depend on imported raw materials for their production. It was also reported that many manufacturing organizations forced to operate under capacities due the same underlying problems. This also led to further inflation on some commodities and more than double increment of price of construction materials. Shortage of steel factory products further constrained the construction activities through out of the country.

### 3.5. The Policy Challenges

The ADLI graduated to urban industry with its unfulfilled assignment of agricultural development. Agricultural improvement has been the base for any industrialization. For instance, the Industrial Revolution and the Chinese Industrialization were grown from agricultural development. Despite of its effort, the ADLI did not facilitate the agricultural ground which supports industrial development in the country. Before urban industrialization, rural and urban agricultural product and productivity should be developed by introducing new technologies(mechanization) and rural infrastructural investment. The success of mechanization and rural development leads to food security, rural surplus production and rural income increment. These in turn increases the rural purchasing power and relaxes urban consumption expenses and encourage more saving. As a result, people want to improve their life standard by consuming industrial products in both rural and urban livings. On the other hand higher savings enable the government self-financing and decreases or cuts external dependency for public financing. With these backgrounds the industry can be installed on strong domestic financing and demands. Then industrial process should first focus on import substitution products and satisfying internal demand to overcome import and export expenses which needs hard currency. The domestic marketing has dual advantages: firstly, domestic marketing is sustainable and none fluctuating when it is compared with global marketing. Secondly, it is also free from tariff and other legal costs that incurred when firms go for cross boundary. Secondly, export oriented products should be after satisfying domestic demand and surplus should be exported. The notion here is that many firms should born from the internal development and FDI needs great cautions and restrictions. Firms have to be mushroomed domestically by encouraging cottage industries, creating entrepreneurship environment (innovation and business incubation centers) and organizing SMEs. Many businesses should be financed internally

through savings and cooperatives. Government should play vital role in facilitating internal financing through establishing strong government easily accessible financial institutions like banks and micro finances. It should also focus on science and technology streams to increase innovation and innovativeness which can scale up domestically produced goods and services in terms of functions, design and fashion which makes the domestic firms internationally competitive and create internal core competency in addition to supply skilled manpower to the existing firms.

In general, the Ethiopian industrialization started before completing its assignment of agricultural and rural development, high dependency of FDI, many firms were privates (in fact many of them fabricated by government and their ownership are not clearly known by society otherwise operate and create business empire in the name of government developmental organizations), some based on its traditional comparative advantage of coffee export which continuously hit by international price fluctuations, dependency on external financing, priority for Urban Industrial Parking before Rural Industrial Parking to create none agricultural income for rural families, focus on extensive urban road and railway construction before rural road construction (where many are living) as required to develop rural production and productivity since the country is agricultural based economy, science and technology streams lacks quality, industrial linkages and techno-business incubations, establishment of SMEs with political motives, many firms are totally produced their products for export while government imports some basic products like wheat and food oils and the likes are what should have been taken in to consideration in the process of industrialization.

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