A glance at the sectoral distribution of the GDP depicts a steady decline in the importance of agriculture in the economy. The share of agriculture to GDP has been declining from about 74% in 1965 to 39.4 % in 2002/03 suggesting that a structural transformation has been taking place. Nevertheless, the age-old contribution of the sector in foreign exchange earnings and employment generation remained more or less constant at around 90 and 85 per cent, respectively[1]. Neither the industrial nor the service sector shows any sign of absorbing the surplus labour in the rural economy.

The private sector is predominantly small in size, lacks entrepreneurship, lacks invisible capital to move the economy. Moreover, the determinants of private investment are found to be scanty.

The informal sector, as in other developing countries, accounts for a sizable number of urban people, mostly the poor. It contributes about 8.4 per cent to GDP and 1 million employments[2]. The formal sector is small in size and incapable to absorb the existing large number of the urban open unemployment and the disguised labour force in the agricultural sector.

The industrial sector is at its infancy; it is highly import-intensive and has hardly any linkage with the rest of the economy. Its contribution to GDP continued to be minute, about 10.5%, foreign exchange generation of 10% and employment of less than 7% for the last four decades[3].

Most of the farming and livestock rearing practiced in the highlands are dependent on the amount of rainfall. This variability of rainfall is not expected to improve in the future as long as the intensity of land degradation and deforestation continue. More than 50% of the highlands are intensively eroded. Currently, the country's forest cover is estimated to be around 3 per cent. Emphatically, Highland Ethiopia has been suffering from massive land degradation due to soil erosion, which in turn is caused by high population pressure and heavy run-off. Although, the lowland constitutes about 63.7% of the total land area, it supports only 12% of the population[4].

The country is excessively dependent on traditional sources of energy such as fuel wood, crop residues, and animal waste (dung). As a result more than 90% of the country's energy need is met from these traditional sources. And only Less than 10% of the total demand is met from modern energy sources such as hydroelectric power and petroleum[5].

[1] Data from MEDaC (various issues).
[2] CSA Informal sector survey.
[3] MEDaC (various issues).
[4] Department of Economics, Addis Ababa University.
[5] Ibid.

The country is predominantly a nation of young people. Almost 57% of the population are under the age of 20 years. The population of the country is characterized as one of the fast growing in the world. The population was estimated at 53.5 million in 1994. According to CSA projection if the current trend continues, the population of Ethiopia is expected to double every 24 years, and to reach 120 million by the year 2022.[6]

Presently, the average cultivable land size declined to 1 hectare per household. In fact, it has fallen to less than 1 hectare in 7 out of the 11 regions or in almost 62% of the households. 36% of the farmlands are less than 0.5 hectares. Almost 95% of the irrigation potential of the country are in the lowlands with poor infrastructure and poor health conditions which made the lowland inhospitable for settlements.[7]

Currently, the per capita income of the country is estimated at about USD 100, the least in the world[8]. The country is characterized by severe shortage of capital which is due to low saving which in turn is due to the subsistence nature of the economy and widespread poverty.

The country uses backward techniques and unskilled labour in the production of goods and services. On the other hand, the hold of backward traditions and customs are extremely strong operating against growth and development.

Both economic and social infrastructure coverages are very low even by the standards of sub-Saharan African countries. For instance, good number of rural household farms (75% of farms) are located far away from all-weather roads making transportation and distribution of inputs and collection as well as marketing of outputs not only difficult but unacceptable[9].

Being an underdeveloped economy, the structure of exports is dominated by primary agricultural commodities, which alone account for more than 90% of the export proceeds of the country. Coffee alone accounts for about 70% of agricultural exports and 60% of total export proceeds[10]. The price of coffee has been characterized by erratic fluctuations over the years. The structure of the country's Import like that of other underdeveloped ones is dominated by basic intermediate and capital goods.

1.2. Research Question

Does ADLI comply with the Ethiopian reality, with the lessons from developed and newly industrializing countries and with the mushrooming globalisation? Are ADLI and export-led promotion strategy compatible?

[6] Economics Department, AAU.
[7] Ibid.
[8] UNDP Report.
[9] MEDaC (Various issues).
[10] Ibid.

The compatibility of the strategy has been the bone of contention among various groups since the design and introduction of the strategy by the EPRDF-led government. However, no researcher has ever intellectually attempted, for one reason or another, to address it from various perspectives.

1.3. Objective

This paper will try to evaluate ADLI in the light of Ethiopian settings, lessons from development experiences and the challenges of globalisation. It will also analyse the compatibility of ADLI and export promotion strategy, and come up with sound recommendations.

1.4. Research Methodology

The methodology to be employed in this paper will be surveying the relevant literature on ADLI and export promotion strategy, globalisation and Ethiopian socio-economic reality and lessons from developed and newly industrializing countries.

1.5. Organisation of the Paper

The paper is organized into four parts. The first is introductory; the second presents summary on ADLI and export-led growth, rural development and industrial development strategies; the third gives compatibility analysis of the development strategies pursued; and the last one wraps up with conclusion and recommendation.

2. OVERVIEW OF ADLI, RURAL AND INDUSTRIAL DEVELOPMENT STRATEGIES

In an attempt to analyse the current development polices and strategies I have tried to start from policies and strategies that have been pursued so far starting from the period when conscious planning exercise began in the country.

In the late 1950s, Ethiopia adopted an export promotion strategy with a package of incentives the ultimate goal of which was to generate as much foreign exchange as possible that the country needed to finance its imports. This strategy, however, didn't manage to bring about the remarkable results that were expected (FFYDP 1956).

Nonetheless in the early 1960s, learning from the industrialization experiences of the advanced economies, the country adopted an import substitution strategy whose focus and objective was to save as much foreign exchange as possible. It was mainly adopted on the basis of protecting the domestic infant industries from outside competition through the imposition of high tariff and non-tariff restrictions. Somehow

the strategy attracted certain local and foreign investors to set up factories which were dependent on imported raw materials and spare parts and remained infant without showing any significant development (SFYDP 1962). And finally, they were nationalized by the military government in 1975.

With respect to the development of the agricultural sector two policy lines had been pursued in the late 1960s, namely the establishment of large-scale mechanized commercial farms and the establishment and development of package projects. There were some kinds of fiscal measures to encourage the expansion of the large-scale mechanized commercial farms in the country; however, the achievements of these LSMCFs were not that much encouraging.[1]

The overall policies of the military government, which took over power from the feudo-bourgeois regime in 1974, were geared towards expanding the collective and public sector, and managing the economy through central planning. Somehow it attempted to pursue import substitution industrial development strategy well through the 1980s. Regarding the development of the agricultural sector, the large-scale private commercial farms were completely nationalized, and became state farms while the package projects meant for the improvement of the peasant agriculture have continued through the Derge regime with some sort of amendments[2].

After the fall of the Derge, the new transitional government of Ethiopia (TGE) adopted a free market economic policy whose objective was mainly rationalizing the role of the state in the economy. The TGE also introduced the structural adjustment program (SAP) in 1992, the objective of which was to achieve macroeconomic stability so as to create conducive atmosphere for investment and economic growth.

The development strategy adopted by the TPLF/EPRDF government was Agricultural Development-Led Industrialization (ADLI) which envisages the transformation of the backward economic structure of the country. It is a dual strategy that incorporates the external sector (export-led part), on the one hand, and the domestic sector, on the other. Basically, ADLI meant to ensure accelerated economic growth through a rural-centred development programme (MOPED 1993).

2.1. Agricultural Development-Led Industrialization (ADLI)

The EPRDF-Led government strongly believes that the existing economic structure of the country needs radical transformation, and this structural transformation can take place only gradually and over a long period of time. But the immediate focus would have to be on the increasing of the productivity and volume of production of the agricultural sector. It is noted that the development objectives that would have to be

[1] Department of Economics, AAU.
[2] Ibid.

achieved in the process of this structural transformation are sustainable economic growth; equity (i.e., including regional equity); and self-reliant national development (MOPED 1993).

This strategy is mainly based on improvements in the productivity of peasant agriculture together with industrial development strategy that makes extensive use of the country's natural resource base and locally available abundant surplus labour on a sustainable base. Moreover, ADLI embraces the export-led development strategy as an engine of growth and a parallel and coordinated development of agriculture and industry (MOPED 1993).

- **Agricultural Development Strategy within ADLI**

According to the strategy, agricultural development is viewed in three sequential phases. First, there would have to be major improvements in the age-old traditional agricultural practices; here the use of improved seeds and other modern farm inputs such as fertilizer, pesticides, etc would be crucial. Second, introduction of small-scale irrigation schemes, the expansion of agricultural infrastructure and modern technology such as simple farm machinery, etc. The last is the employment of the expanding rural labour force in non-agricultural activities (MOPED 1993). Therefore, according to the strategy Sustainable agricultural development can be attained only when there is accelerated industrial growth and this growth can be achieved after the first two phases of the strategy have been successfully implemented (MOPED 1993).

- Industrial Development Strategy within ADLI

ADLI envisages an Industrial development that focuses on investments that would increase incomes of the population. In this respect, the government's strategy is the promotion of labour-intensive technology and the utilization of domestic raw material. According to this strategy, the industrial sector will stipulate the condition for creating markets for its own products, mainly consumer goods, and to some extent capital goods. Hence, the agricultural and the service sectors are considered as a possible market for industrial products and this market must be based on the needs and levels of income of the majority of the population (MOPED 1993).

There is a strong belief by the government that, neither technological development nor product composition can come about by relying on market forces alone. They are not enough for creating the economic structure envisaged here, and stipulates intervention to devise an adjustment mechanism (MOPED 1993).

It is planned to motivate the private sector to choose labour-intensive technologies that make use of domestic raw materials extensively. This, of course, provides an impetus for the expansion of cottage and small-scale industries. Industry in this strategy contributes to economic growth by creating employment for the redundant

labour force both in the urban and rural areas as well as by providing an expanded market for other sectors of the economy (MOPED 1993).

The strategy stipulates that all economic and social infrastructural development are undertaken within the framework of ADLI, for instance, road networks will be developed in areas which have export potential (MOPED 1993).

As a basis for implementing the agricultural development -led industrialization strategy, short and medium-term plans along with detailed sectoral strategies have been worked out in the EPRDF first and second development plans, and have been under implementation.

- **The Export Sector Development Strategy Within ADLI**

This is ADLI's external sector strategy, and it emphasizes on three distinct but interdependent intervention schemes, namely: (1) the promotion of selected agricultural and manufactured products with high export market potential; (2) ensuring an enabling environment for private sector development and providing packaged support for potential exporters; and (3) providing a framework of cooperation and coordination for the various actors (MOFED 2002).

Here the promotion of selected agricultural products in turn will focus firstly on high value products with sound production and high export market potentials including coffee, cotton, fruits and vegetables, livestock and livestock products. And Secondly emphasis will also be given to such products as oil seeds, pulses, maize, wheat, spices and forest products. Concerning manufacturing the focus will be on those agro-industries with high employment generating capacity and easy market access including textile, leather, and meat industries (MOFED 2002).

2.2. Rural and Agricultural Development Policies and Strategies

It is clearly indicated in the recently issued white paper on the strategy and policy of rural development that rural development is not solely confined to agricultural development, but it includes a number of activities outside agriculture (MOI, 2001). It is argued that agricultural development policies and strategies concentrate on the following three basic points:

a) **Linkages:** Identification of the linkages among the various aspects of rural development activities is of paramount importance. It is indicated that Co-ordination is required not only among the activities within agriculture, but also with the rest of the economic sectors. By and large, the opportunities that could be realised from backward and forward linkages within an economic system need to be explored and exploited.

b) **The Question of Access to Land:** this question is addressed both from the viewpoint of output growth and the welfare of the people. According to the land policy, land belongs to the people and that the government, particularly regional governments, administer it on behalf of the people within their respective jurisdictions. Land is state-owned and it cannot be sold or exchanged for other property or be mortgaged, but it can be bequeathed to heirs. The farmer has not only user-rights on the land, but he/she can rent it out to a third party. In this regard, a guarantee may be given to the effect that land will not be re-divided for a period ranging from 20-30 years. Nonetheless, if the government, for one reason or another, wants the land, compensation will be paid for any capital invested and any improvement made on the land.

When private investors wish to engage in agricultural development activities, they can have access to land on a long-term lease basis. As the highlands of Ethiopia are more densely populated than the lowlands, medium and large commercial farms are directed to the lowlands, where no displacement of existing settled peasants occurs. In addition, unutilised land in the vicinity of small farmers (even in the highlands) can be rented (leased) for modern commercial farming as long as it does not result in the displacement of small farmers.

c) **Technology and Market Access:** according to the strategy, within the short and medium term, the major market outlets for agricultural products will most likely be the towns and cities of the country. In order to smooth the transition to a market-based agricultural system development packages should be selected and prepared carefully, technologies be continuously improved and supplied to farmers on a sustainable basis and be provided with extension service, technical training and services uninterruptedly. These, however, need to be supplemented by relatively stable and remunerative product prices and well-functioning input and output markets.

2.3. Industrial Development Strategy

There comes a white paper on industrial development and according to this new document the speed, growth and direction of economic development in general and industrial sector in particular are determined by agricultural development. The basis of this idea is the perceived comparative advantage of the country with respect to the factors of production—land and labour (MOI 2001).

Within the industrial sector, export industries are deemed to play the leading role. The industrial sector is actually meant to produce goods and services that facilitate and enhance the growth of the agricultural sector and it is expected to add value to agricultural outputs for export markets (MOI 2001).

In the document it is clearly stated that the private sector is the engine of the

industrial sector's growth. The private sector is expected to use labour-intensive technology. Government is limited to creating an enabling environment and building the necessary infrastructure for the development of the sector. The strategy gives particular emphasis to manufacturing industries (MOI 2001).

As is the case in both the ADLI and rural development documents, the document on industrial development gives emphasis to the manufacturing of textile and garment, meat, leather and leather products and agro-processing activities.

Having seen, very briefly, the development strategies pursued by the government we will pass on to the next section for compatibility analysis.

3. ADLI, ETHIOPIAN SETTING, AND LESSONS FROM EXPERIENCE AND GLOBALISATION: ARE THEY COMPATIBLE?

3.1. The Ethiopian Setting

Although Ethiopia's territory extends over about a million square kilometres, cultivable Plots are tiny, the national average is estimated to be about one hectare per capita, and this undermines agricultural intensification." Viable farm size" is thus important so as to maximize and intensify harvests, as plot size is found far more important for reaping benefits than agricultural inputs. Given the frightening rate of increase in rural population, poverty reduction needs an effort beyond reliance on the farming sector (EEA 2002).

Taking the MOA's yield forecast of 20qt/ha due to the application of improved seeds and fertilizer, land to be cultivated being 9.0 million ha and population size 83 million in 2010 ZemedKun Worku (2002) estimated grain production to be about 180 million quintals which is 2.17qt per capita annually. This provides about 1915 Kcal per capita daily which is less than the recommended calorie intake. He then concluded that agricultural productivity alone cannot keep pace with population increase.

Evaluated appropriately from different perspectives, adopting ADLI as a strategy may hardly achieve the required level of development due to:

1) Agriculture is widely dispersed geographically, requiring vast investment in infrastructure of various types, which is unthinkable in the short- to medium-term, given the current trend;
2) Accelerated agricultural growth cannot directly bring about high overall growth rate in output or employment owing to the constraints of limited land area, the biological nature of agricultural production, and the dispersed, variable production system, and the non-tradable nature of the

majority of the country's produce.

3) Moreover, what agricultural sector could do at best is either releases labour or provide employment for its own increased population, and

4) Agricultural growth alone obviously cannot supply the broadening consumption demands beyond food that all people desire, especially at higher income.

The industrial strategy document is over-optimistic in achieving the desired level of industrial development in the near future. It really is blind to the low industrial base of the country, infrastructure and skilled manpower needed. It expects shortly improved competitive power of the industry of the country (through provision of standard quality output, low cost and timely delivery) without any significant support for the sector. The strategy has not thoroughly analysed the demand side (external) problem, especially problems related with the competitive powers of our competitors.

The labour abundance and the density of population in rural Ethiopia are not similar to that of the East Asian countries so as to replicate the agricultural successes registered in the sub-region -including the green revolution. Their success, by itself, was highly due to the vast percentage of land brought under irrigation. In Ethiopia, although we have apparent water resources the terrain is too difficult to bring a significant size of land under irrigation, as born out by the current less than 5 %. Moreover, the water volume, itself, highly fluctuates from season to season.

Furthermore, Asian agriculture, in contrast to the Ethiopian, by and large, consists of highly differentiated peasant ownership structures, with a large part of the agricultural labour force taking the form of landless labourers or poor peasant farmers with the major part of their livelihood taking the form of wage income. Rural wages in these economies are well below the average product of labour. It was, in fact, in relation to these economies that the dual economy models, or the surplus labour economy models, of the 1950s and the 1960s, were formulated (Lewis 1954)

Among development researchers Mulat (2002) suggests as the vision to change the structure of employment, economy and export calls for a program aimed at developing the non-agricultural sector. He adds that as a land-locked country, Ethiopia's comparative advantage is likely to lie in providing services and high- value products to the rest of the world.

The introduction of market liberalization measure is likely to stimulate the growth of output in areas with better access to markets and favourable infrastructure. Under the existing poor infrastructure as well as the prevailing backward traditional farming practices in the subsistence sector, it would be a mistake to assume that agricultural output would be stimulated by the 'trickle down' effects of the growth of the export crop sector.

The move towards agricultural export strategy should carefully be analysed from both internal and external dimensions. For instance, Yohannes (1992) found out that Ethiopia's export earnings are more vulnerable to external shocks (such as price falls and world economic recession) than domestic supply problems (due to natural disaster, drought and so on).

Moreover, the price elasticity of supply of agricultural products, especially those of perennial crops and of mineral products are considerably less than one Behrman (1968) s quoted in Lim (1991:7) reflecting an inherent lag in supply responses.

The ever declining prices of coffee, from about USD3.5/kg in 1997/98 to USD1.46/kg in 2001/02 (NBE 2003), reduce farmers' incentives to replace aged-trees, to plant new high - yielding varieties and to provide good management to an existing tree stand. As a result, the country would not only suffer from low world prices but also from low production, hence low export quantities and earnings.

Most export commodities are also used domestically to a greater or lesser extent, either as industrial inputs or by final consumers. For instance, On average about 50 % of the produced coffee is consumed domestically challenging our export volume. This again requires greater effort to direct the domestically consumed products to find their way to overseas.

An open trade regime is an important complement to an agriculture- and employment- based development strategy. This is because of the rapid growth in demand for very capital—intensive intermediate products such as fertilizer, steel, or plastics which, if imported, avoid capital intensive domestic production and give an extra boost to the export of labour- intensive commodities in payment (Mellor 1986). This strategy favours importing very crucial intermediate products instead of producing them at home. The problem is when non-tradable outputs use imported intermediate goods posing problems of financing the required foreign exchange.

Most African countries depend on official development assistance. While this flow is essential to support investment and diversification, (Collier 1997), their effects on economy-wide competitiveness can be damaging without an explicit strategy for protecting the real exchange rate. In Ethiopia a great proportion of foreign exchange comes from assistance and loans and about 60 % of the capital expenditure is financed from these sources. This, in turn, has played a great role in maintaining the exchange rate from depreciating disarmingly since the time of devaluation in October 1992 from previously fixed level of 2.07 Birr per dollar to 5 Birr per dollar.

Sutcliffe (1971) noticed that labour needs in agriculture are seasonal and most workers are required for only a short period of time (harvest time) each year. There is a similar trend in Ethiopia, which is manifested, in the high demand for labour in the coffee growing areas during harvest. Thus, the assumption of the availability of

abundant labour in the rural areas needs further scrutiny.

3.2. Lessons from Experience

One of the approaches to see the appropriateness of a strategy is to evaluate it in the light of lessons drawn from developed and newly industrializing countries. Although it is true that the roads taken towards industrialization/growth have been very different and some experiences are unique and cannot be readily duplicated, reviewing experiences has its own value if under taken carefully.

To start from the classical thinking as to the sources of growth, both Smith and Recardo believed that it resulted from capital formation and that growth is halted by insufficient supply, while Marx and Keynes saw demand problem as a growth curtailing one. Schumpeter's source is change in technology while that of Marshall is economies of scale (Bruce 1988).

Harrod explained growth to be increased either by expanding savings or lowering capital output ratio. Nonetheless, the rigidities of Harrod-Domar growth model has led to further exploration of theories. As a result the Neoclassical Growth Model came up with a greater flexibility. In Solow's model technological progress is simply exogenous. It is not determined by economic considerations such as profitability (Bruce 1988).

The basic feature of endogenous growth model is that growth occurs not because of automatic and unmodeled (exogenous) improvements in technology but it occurs as profit maximizing firms or investors seek out newer and better mousetraps (Romer 1994).

More recent findings on how to catch up with developed economies depicted the option of transfer of technology to LDCs through development of human capital.

In an effort to identify problems of LDCs and bring about development, World Bank has been on the neo-liberal school's side, with all the assumptions, in its policy advice.

The notion of **'getting the price right' policy** advice of the World Bank for LDCs regarding export crops suffers from the 'fallacy of composition'. Each export crop growing country's effort to improve incentives to growers rebounds to the disadvantage of all others. This 'fallacy of composition' appears to destroy the efficiency argument for raising prices in the case of several major third world export crops.

The unrealistic assumptions of the bank and the worsening situation of its advisee countries gave rise to opposition. As an anti-Washington Consensus, Joseph Stiglitz's

(1998) line of thought is based on Information-theoretic approach, which is a theory of market imperfection. It is critical of Washington consensus, which is a neo-liberal idea emphasizing on fiscal disciple, liberalization, deregulation and privatisation, and seeks in depth and breadth state intervention. And it argues as state and markets are complementary than substitutes. It seeks to establish the appropriate role of state in view of market imperfection.

Lessons from experiences show that the growth of industry requires investment, and this can be financed basically in one of three ways: from within the industrial sector itself, from a surplus in other sectors of the economy or from abroad. There is no doubt that in all industrialization a good deal of industrial investment has been financed from the surplus within the sector itself (Sutcliffe 1971).

Industrial investment from agriculture is possible in a number of ways. First, agricultural capitalists or landlords may simply use agricultural surplus to finance industrial investment as a voluntary action. Secondly, as in Japan, a growing surplus can be taxed away from them. Thirdly, the surplus can be effectively channelled to industry by turning the terms of trade against agriculture. Lastly, agricultural surplus can simply be expropriated by force (Sutcliffe 1971).

However, terms of trade affect the incomes and interests of various groups. The industrialists would like the price of agricultural raw materials to be low and to import their machinery cheaply. These interests, on the other hand, will be met when terms of trade are turned against agriculture through overvalued exchange rates and other repressive measures. This is an important element of the import substitution strategy for industrialization. It helps to transfer large surplus out of agriculture into industry. Thus, while intervening in prices, exchange rates and taxation policies that affect agriculture, policymakers have to carefully balance the conflicting interests of all these groups (Hamid *et al.,* 1990).

Mellor (1986) says a development strategy must look like the following if agriculture and employment are to play a central role.

First, agricultural growth must be derived from technological change. Secondly, income from the accelerated agricultural growth must create demand for a wide range of goods and services that broadly diffuse in rural areas; and Thirdly, increased food marketing by lowering food price should be able to encourage employment in other sectors by making labour somewhat cheaper relative to the goods and services it produces.

Views regarding the issues of identifying sectoral priorities in the move towards development are many of which Sutcliffe (1971) asserts that the development of the agricultural sector, and of the manufacturing sector may not in fact, be mutually exclusive, especially if the one involves the government in expenditure and capital

formation while the other involves types of incentives or a land reform which will not in fact cost anything to the government in the form of either of lost tax revenues or of subsidies.

He added that agricultural priority was needed in order to release labour for industrial development which contributes a large share of savings for capital formation. But this will happen only if the standard of living in the rural areas can be forced down. Of course minor improvements in agricultural technology could have a spectacular impact on agricultural output. But this does not, by itself, answer the question of how much of this agricultural output can find a market without industrial growth. It is certainly a short -run argument. An expansion of agriculture must be accompanied by an expansion of either manufacturing or export or import substitution; otherwise the expected linkage will not materialize.

The overwhelming comment on agriculture-led strategy is that if properly implemented it may guarantee short-term poverty reduction in rural rather than urban areas. For instance, Adelman (1986) said, among all development strategies, reliance upon export-oriented growth in labour-intensive manufactures and reliance upon agricultural development-led industrialization appear to promise the poor.

In fact, expanded agricultural incomes will create a demand for industrial output. But one should know that expanded agricultural incomes would only result either from improved terms of trade or from expanded sales of agricultural commodities (Sutcliffe 1971).

In giving priority to a particular sector deemed to foster growth government is advised to critically assess the reality on the ground from many angles and involve in sectors that are not responsive to private incentives. In fact, backward social systems and primitive agricultural methods may make agriculture, less responsive to incentives (Sutcliffe 1971).

The choice of technology for a country, between labour intensive and capital intensive, does not differentiate whether the choice of techniques is for specific production process and the economy as a whole. Even so a number of empirical studies suggest that there is no choice as such practically. It is argued that since most industrial technology is developed within the industrial countries, economic pressure had led to the invention of labour saving techniques of production. On the other hand, it is extremely hard to assess whether there exists an almost continuous spectrum of technologies with different capital intensities for LDCs to choose from. Poor countries don't have large institutions dedicated to generating technological change. As alternative they import the technology which, in turn, developed in response to replacing the more expensive factors of production (labour) to that of cheaper one (capital) rich countries (Sutcliffe 1971).

While we are saying that the private sector is the engine of growth the choice of technology is left to the investors. Moreover, there is a clear distinction in the sort of choice made by indigenous investors and foreign ones (Sutcliffe 1971).

With regard to policies and strategies of trade either alone or in combination with others there are various arguments which run as follows. For instance, Mellor (1986) argues that an agriculture and employment-oriented strategy does differ importantly from an export-driven strategy in that the bulk of the markets for production will arise from increased domestic incomes and substantially from the higher incomes of farmers applying improved technology.

Nurkse's view of the breakdown of the trade engine of growth and the Prebisch—Singer hypothesis—relative price of primary products to manufactured goods declines in the long run – enjoined considerable popularity during the 1950s and early 1960s as quoted in (Promfret 1997:81). Together they contributed to export pessimism. Both arguments turned many developing countries' policies toward import substitution behind highly protective walls, undermining their export capacity.

After the success of export promotion strategy echoed throughout the globe, there came two different sets of factors generating the second export pessimism that tends to undermine the desired shift to export promotion strategies; (1) the slowing down of the world economy since 1970s and the resurgence of powerful protectionist sentiments in the developed world; and (2) new intellectual and academic argument supportive of inward-looking trade policies in the developing countries (Miler 1990).

For most underdeveloped countries there are highly depressing prospects for exporting both agricultural raw materials (as a result of low-income elasticity of demand in developed countries) and manufacturing goods (as a result of the problem of competing with more industrialized countries and of their restrictions on such trade).

Moreover, industrial exports are sold in complex combinations of terms and conditions that mostly go against poor countries (provision of quality goods, offering the best credit terms and delivery reliability are the key factors if exports are to be successfully marketed).

Lessons from experience show that comparative advantage changes as time proceeds. Thus, the question as to which strategy and which set of policies are most effective for a given country is likely to change over time. Changes take place both in the initial conditions within each country and in the economic and political environment in which the country and the world operate. Towards this argument, Haile (2001) clearly stated that all growth theories and country experiences suggest that export-led growth strategy is both time or place invariant. Therefore, there are relevant experiences that other countries could learn. However, the replicability of

exports as a growth strategy in the context of globalisation and the mushrooming of regional integration may not be time invariant for two reasons. First, the political economy of international trade has changed; and Secondly, if indeed globalisation is taking (or will take) place, the competition game will timely assume a radically different form than what East Asian countries faced in the 1960s and 1970s.

Based on the casual evidence (the amount of aid and the market access given to countries like S. Korea, for instance), Haile (2001) further elaborated as international trade was probably at times used as a deterrent to Eastern influences due to the political environment that prevailed in the 1960s and 1970s (the Cold War era). Access to technology (and the tolerance for piracy) and export markets was much relaxed for such countries at that time. And these advantages have most likely disappeared in the post-cold-war era, thereby limiting the window of opportunity that the East Asian countries enjoyed in the 1960s and 1970s when engaged in export-led growth.

ThirlWall (1995) says there is a distinct difference between identifying lines of activities in which to promote exports and identifying lines of activity in which to develop import substitutes. In the former case, one is seeking out lines of comparative advantage; in the latter case, one is attempting to reverse the pattern of trade altering comparative advantage. This shows both export promotion and import substitution go hand in hand.

Mellor (1986) argues that of all the post- World War II strategies, export promotion was the one most deleterious to agriculture. He argues against overvalued currencies, which discriminate so strongly against agriculture. In practice, the export promotion strategy looks explicitly to markets abroad rather than to the broad- based domestic markets that can accelerate agricultural growth. It also emphasizes trade to allow economies of scale, thereby favouring more capital-intensive industries.

According to this analysis, compatibility problem arises between the two strategies, namely agriculture-led development and export promotion. Export promotion strategy discriminates against labour-intensive agriculture and domestic market for trade looks forward.

A closer look at the East Asian economies reveals a different explanation of their success. The story is more complex creating some doubt about the advisability of construing the East Asian case as a singular model for economic policy for developing countries.

The agricultural success that is cited time and again is the famous "Green Revolution". It is characterized by the use of high-yielding and disease resistant seeds. It converts agriculture from more traditional practice to more modern activities. It seems, however, difficult for poor countries which fall short of capital to adopt, for it

requires capital for irrigation, inorganic fertilizer, mechanical equipment all of which require petroleum as fuel to run. Petroleum, in turn, is getting 3 to 4 times higher in price these days than at the time when the Green Revolution was a success story (Bruce 1988).

Export promotion development strategy as applied by NIEs-Korea, Taiwan, Singapore and Hong Kong- applied equal incentives to export promotion and import substitution. It was not essentially anti-export biased. Strong government commitment and support to steer the economy towards outward orientation without interfering too strongly with the market mechanism ("optimum government intervention") was carefully put in place (Sanjaya 1996).

A study comparing Mexico and Korea shows that in both countries import substitution took place in sectors that were initially protected and then in later phase moved towards production for export market. The dichotomy between export promotion and import substitution is overdrawn in the description of the experience of both countries in the 1970s and 1980s (Bradford 1986).

Taiwan and Singapore's experiences seem to be the case of development mix rather than dichotomous choice. Instead of providing a sound basis for the new conventional wisdom on development policy, the experience of the East Asian newly industrialized countries is at odds with this view. The real story of what constitutes successful development is subtler and indeed quite different from what the stereotypes suggest (Bradford 1986).

Recent models of coordination failure and capital market imperfections make it clear that strategic government intervention may often be required to get out of low level traps and elicit desirable private investment response (Hoff and Stiglitz 2001). In fact, the extensive subsidization and government-led coordination of private investment in Korea and Taiwan played a crucial role in setting the stage for self-sustained growth (Rodric 1995).

The high performances of Asian countries are perhaps the most spectacular examples of economic success linked to export. It should be noted, however, that this success has not always been based on free trade and laissez-fire. What is important for growth is not whether the free market rules or the government intervenes, but getting the fundamentals for economic growth right. Researchers have identified three policies that are deemed to contribute to the success of the "tiger" economies. First, industrial policies to promote particular sectors of the economy. Secondly, government controls of financial markets to lower the cost of capital and to direct credit to strategic sectors. And thirdly, policies to promote exports and protect domestic industry. Crucial to all three policies is good governance.

IMF examined the sources of the spectacular Chinese growth performance and

arrived at the conclusion that although capital accumulation was important as were the number of Chinese workers, a sharp sustained increase in productivity was the driving force behind the economic boom. A sizable portion of china's recent growth is in fact attributable to capital investment that has made the country more productive. Capital formation alone has accounted for over 65 % of pre -1978 growth. Prior to the 1978 reforms nearly four in five Chinese worked in agriculture, but by 1994 only one in two did because of the market-oriented reforms that induced many workers to move out of agriculture (IMF 2001).

By welcoming foreign investment, Chinese open door policy has added fuel to the economic transformation. For instance, annual capital inflows increased from less than 1 per cent of total fixed investment in 1979 to 18 per cent in 1994 (Zuliu and Khan 2001).

In an application of experience to their countries, African policy makers failed to incorporate the institutions that are conducive for an implementations, trained work force, cultural ingredients and bureaucracy structured with ingredients: responsibility, accountability, and incentive compatibility necessary to implement policies they considered to be appropriate (Haile 2001).

Both the quantity and quality of education prevalent in many African countries fall short of creating the environment that fosters adaptation of technology and creation of new ideas. As Romer (1999) put it, one of the safest predictions is that, "the country that takes the lead in the twenty first century will be the one that implements an innovation that supports production of commercially relevant ideas".

According to ThirWall (1995) the comparative advantage/free trade argument is a static one based on restrictive, and very often unrealistic, assumptions. As a criterion for the international allocation of resources it suffers from the same static defects as the investment criterion of traditional micro - economic theory, which is the marginal rule for resource allocation. Since fundamental structural disequilibrium and extreme imperfections characterize them, it cannot be assumed that the market prices of goods and factors of production reflect the social costs and benefits of production.

Basing one's strategy on the relatively abundant resource has been challenged by several scholars, among whom are Bloom and Sachs (1998). They argue that Africa's resource base is weaker than supposed. And in their view specialization in agriculture is not a viable development strategy. They found that plausible explanation for the perceived positive correlation between export expansion and economic growth has much to do with externalities, greater utilization of capacity, the potential for scale economies, greater external inflows, the pressure for competitive effects upon x-efficiency and other such influences, not as such resource base.

Wood (1997 1998) argues that in an era of globalisation and integrated capital

markets, physical investment is likely to be an outcome rather than a cause of comparative advantage. Instead, natural resources and human capital are likely to be the main determinants of comparative advantage.

Collier (1997, 1998) argues that Africa's extensive natural resources have no translated into higher labour costs. Instead, Africa is poor, under capitalized and uncompetitive in transactions—intensive activities such as manufacturing. Poor policies and weak institutions have led to exorbitant transaction costs, while repeated policy failures and reversals have led to high risk. These rather than resource wealth are the key constraints to growth and diversification.

In the medium- to long-term, Africa could significantly widen its comparative advantage, if policy distortions (including those associated with uncompetitive or unstable real exchange rates), poor infrastructure services, high transactions costs (including those due to corruption) that inhibit competitiveness are properly addressed.

In the network age, economic well-being is information and knowledge-based. As observed by Stewart (1994) "knowledge is more valuable and more powerful than natural resources, big factories or flat bankrolls. Developing countries can no longer expect to base their development on their comparatively cheap labour advantage. The comparative advantage that now counts is the application of knowledge."

Creating a base for competitive industrialization in Africa will not be easy. Efforts to replicate the success of industrializers in Asia and Latin America face some daunting challenges, including land locked states, high transport costs, low economic density, geographic isolation from high-growth clusters, and limited skills and technologies (UNIDO 1996). However, there are enough examples to show that Africa can diversify and be competitive across a broad range of products if policies are improved and transactions costs lowered.

The cost of transportation from the major marketing centres is particularly onerous when global prices are low. Internal transport costs are also said to double or triple the free on board (f.o.b.) cost of exportable agricultural products relative to farm gate prices in outlying agricultural areas in most Sub-Saharan African economies (UNCTAD 2000).

Given Africa's small economies, it is hard to imagine a successful diversification drive based solely on domestic markets. Exports—especially of industrial and non-traditional products—provide the best avenue for attracting high and productive investment. As the experience of other developing regions suggests the virtuous circle begins with investment which triggers higher and sustained growth (UNCTAD 1998). But without broad and growing markets, investment will not be attracted. This shows as domestic market and export- led is incompatible to give rise to growth in the

Ethiopian case.

3.3. Globalisation

In the face of globally integrating world economy, of course, international trade is the major linking variable. In fact, no country has developed successfully by turning its back on international trade and long-term capital flows and no country has developed simply by opening to foreign trade and investment. The trick in the successful cases has been to combine the opportunities offered by world markets with a domestic investment and institutions building strategy to stimulate the "animal spirit " of domestic entrepreneurs (Rodrik 2000).

Of the several solutions to the problems of developing countries' exports, one is the granting of trade preferences and the other is international commodity agreement to stabilize or increase earnings from exports.

Tropical beverages (coffee, cocoa and tea) are not import–competing products in the developed countries and their market access conditions were already relatively good before the conclusion of the Uruguay Round. However, from 1982 up to the late 1990s, these commodities have suffered as a result of the fall in real world market prices, largely because of a sizeable potential for increased output in major producing countries (including new entrants like Vietnam) in the face of relatively inelastic demand (UNCTAD 1997). Problems of market access to developed world markets are partly due to our inability to produce at low cost and deliver high quality goods and services.

Of late, new opportunities of opening up of markets for developing countries are emerging, AGOA of USA since October 2000, and EBA (Every thing but arms) of European union are cases in point. The opportunity is believed to remain open for a short period of time (EEPA 2002). The likelihood that the opportunities expire before we develop our competitive power is quite high.

Export growth is expected to be a key component in the shift to higher and rapid economic growth in Ethiopia. But the performance so far, on average, indicated the contrary; export value has been recently declining, partly due to the collapse of international price for the major export commodity, coffee since 1996. Moreover, the country is not even utilizing the market access opportunities availed by AGOA and EBA of the US and the EU, respectively. The most challenging event to come is by the time AGOA and all other opportunities. These all depicts that export promotion as a growth strategy is not working very well in Ethiopia at least in the medium term expire and all developed, and countries are put on equal footings to compete internationally.

Unless we quickly adapt technology that would put us on the catching up track,

"technological terms of trade" are shifting against late-starters. The cost of acquiring new technology has risen both in money and, more importantly, in the skills of operators, technicians, and managers. Thus, the labour quality in attracting FDI is counting against Africa (UNIDO 1996)

Recently, Brahmbhatt and Dadush (1996) have developed a speed of integration index based on four indicators:(1) the ratios of exports and imports to GDP, (2) ratio of FDI to GDP, (3) the share of manufactures in total exports, and (4) a country's credit rating. And they find that the fast integrators include most of the rapidly growing East Asian exporting economies, while the weakly and slowly integrating group include most of the low income countries of sub-Saharan Africa.

Let alone in a global context Ethiopia's participation in the regional economic integration schemes such as COMESA, is highly insignificant. For instance, Ethiopia's export from 1991-98 was 181 million USD accounting only 1.65 % of the total intra-COMESA exports (COMESA website).

Although globalisation offers opportunities, the country is not benefiting mainly because the production structures are not well positioned to take the advantage. For example, since the opening up of the market access opportunity, AGOA , the country earned only 822,000 dollars. Compared with other countries that are exporting their products through AGOA, the country's share is only 0.01%. Of African countries, which cover 90% of the AGOA market in 2001, only three countries, namely, Nigeria, Gabon and South Africa covered 69%, 11% and the balance respectively (EEPA 2002). The pessimistic out look for the country's export could emanate from the unacceptably low performance of the sector under AGOA arrangement.

Experience shows that many countries have generally grown behind strong protection of their infant strategic industries. The protection has even continued after they have achieved competitive power. In 2002, for instance, the USA had imposed 30 % tariff on steel imports to protect the interests of American producers, despite the growing move towards globalisation and free market.

If USA is doing so, how do the Briton Woods institutions advise poorer countries to develop through laissez faire and liberalization despite the fact that they are found at the lowest level in all spheres of life-political, economic and social development.

4. CONCLUSION AND RECOMMENDATIONS

4.1. Conclusion

Capital formation has been playing pivotal role in the move towards industrialization.

In the wake of identifying sectoral priorities for development, consensus is reached as the development of the agricultural sector, and of the industry are not mutually exclusive and an expansion of agriculture must be accompanied by an expansion either of manufacture or export or import substitution; otherwise the sectoral linkages cannot materialize.

Import-substitution industrialization is thought to have been relevant more to **primitive economies** that had little industrial base and exports that were almost exclusively non-manufacturing. In this regard lessons from the Asian Tiger show that import substitution took place in sectors that were **initially protected** and then in **later phase moved towards production for export market,** thereby overdrawing **the dichotomy** between export promotion and import substitution. **In practice, the export promotion strategy** also emphasizes trade to allow economies of scale, thereby favouring more **capital-intensive industries** relative to relaying more on vigorous domestic markets.

There are growing sentiments that **comparative advantage** based on factor of production is insufficient to explain patterns of trade due to (1) countries having virtually no capital were able to achieve substantial progress, e.g. Korea, (2) trade takes place between advanced nations with similar factor endowment and (3) the assumptions underlying factor comparative advantage theories of trade are unrealistic in many industries. Moreover comparative advantage is dynamic; today's low labour cost country is rapidly displaced by tomorrow's. Competitive advantage that rests on factor costs is vulnerable to even lower factor costs somewhere else, or governments willing to subsidize them. Plausible explanation for the perceived positive correlation between export expansion and economic growth has to do with **externalities, greater utilization of capacity, the potential for scale economies, greater external inflows, the pressure for competitive effects upon x-efficiency and other such influences**, not as such resource base.

The challenges of globalisation at least in the short and medium term are outweighing the opportunities presented for developing countries. This can be manifested by the marginalisation of these countries in the world economy, especially since the degree of globalisation started to increase as they are losing trade share in the world market.

Given the country's objective reality: highly disbursed agriculture and very underdeveloped urban centres, ADLI is found to be not feasible; it is also incompatible with development lessons from the early industrialized and the latest one from newly industrializing countries. Moreover, it is not well designed to face the challenges of globalisation.

It was emphasized that following an appropriate policy per se doesn't ensure growth, but equally, how efficiently, effectively and fully such policies are implemented is crucial in determining economic performance. Arguably, on balance, Africa's failure to

achieve satisfactory economic performance is likely to be explained by inadequate political, infrastructural, institutional and other political economy variables that hindered implementation rather than appropriateness (or lack) of policy.

4.2. Recommendations

- As the urban industrial centres are the bearer of both the successes and the failures of the agricultural rural sector due attention should be given to the urban industrial sector. The attention can take different forms such as the arrangement of high incentive structures for private sector.
- As the dichotomy between export promotion or import substitution is only confusion, and countries that are now advanced started with import substitution and after achieving competitive power transferred into capital intensity export promotion. Thus, we should follow the same suit; otherwise the increased incomes of farmers, through increase in productivity, may be spent on a very cheap import.
- In a situation where globalisation and liberalization are sweeping the world at a faster pace than imagined, isolation from the global economic order may perpetuate underdevelopment and poverty. In this regard, the promotion of internationally competitive manufacturing industries and agriculture should be given paramount importance.
- As import substitution is more relevant to more primitive economies that had little industrial base and exports that were almost exclusively non-manufacturing like Ethiopia, the country should also embark on import substitution activities, especially those of basic intermediate goods within the capabilities of the country, e.g. fertilizer.
- In order to emulate the success of the East Asian countries, one should carefully analyse the space-time condition and should intervene in the economy in the same way the governments of that region did.

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