THE PROSPECTS FOR INDUSTRIALIZATION IN ETHIOPIA

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1. BACKGROUND CONTEXT & ARGUMENT

Reliance on markets and macroeconomic reforms has clearly not transformed, developed or industrialized African economies. In fact, the African continent has not yet even embarked on the agricultural revolution leave alone entering the industrial age. The fundamental issue with regard to industrial or agricultural development is one of a lack of a viable long- term development model or strategy in Sub-Saharan Africa.

Before I develop this argument, I would like to set the global market context because any development model today needs to be contextualized in this global market setting. Firstly, national economies and national market space for industrial and agricultural production are increasingly becoming a thing of the past. Secondly, at a global level today, we suffer from excess aggregate supply (production) in both industry and agriculture. In particular, with regard to industry this is a new phenomenon that has emerged in the global market place over the past ten years. With the rise of China as the production floor of the world – with seemingly limitless supply capacity – the world is awash with manufactured goods looking for a market.

2. THE CHINESE FACTOR

It is important to take some time to examine the rise to preeminence of Chinese industry and its implications to the rest of the world – particularly as it relates to non-industrialized developing countries.

Today there is hardly anything in the global market place that is not made in China. Large international manufacturers world-wide find they must either produce in China or expand their purchases from China. The country has become the world's factory

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floor, with an output so massive and wide ranging that it exerts deflationary pressure around the globe on everything from textiles, TV's, computers, and furniture to mushrooms. China is changing the face of industry globally and creating a paradigm shift in the economics of manufacturing.

China now has the world's fourth largest industrial base behind the US, Japan and Germany and is growing fast. Philips electronics is now operating 23 factories in China and exports approximately two thirds of the roughly US$ 5 billion in goods these 23 plants produce. China makes more than 50% of the cameras sold world wide, 30% of televisions, 25% of washing machines and 20% of refrigerators. One city in Eastern China produces 70% of the world's metal cigarette lighters. One private Chinese company produces 40% of all micro-wave ovens sold in Europe. Equally important to understand is that 50% of China's exports which total approximately US$ 300 billion per annum come from foreign manufacturers or their joint ventures in China. What we are seeing in China is the consolidation of global manufacturing in China driven to a large extent by Western and Asian investment.

When we talk about competing with Chinese exports and industry 50% of the time we are talking about companies like General Electric (US), Toshiba (Japan), Siemens (Germany), Samsung (South Korea), Acer (Taiwan) etc. Motorola expects its investment in China to reach US$ 10 billion by 2006, Toshiba is building the worlds biggest laptop factory with an expected output of 2.4 million laptops a year. Most of this production is destined for exports.

As far as Sub-Saharan Africa is concerned we are not yet even engaged in the production of these relatively modern capital and technology intensive industries. What little industry we have is still centered on low-end low value added consumer products such as textiles, garments, shoes, etc. Here, the competition from China is beyond fierce and producers in Africa can do no more than wonder in amazement at how they get prices so low and quality so high.

As if this wasn't enough, for those of us in Sub-Saharan to worry about when we think about industrialization, China's entry into the WTO is accelerating the pace of its export growth. By forcing down trade tariffs and protection, WTO membership cuts production costs and removes obstacles to selling overseas. This is drawing more investment into China, funding new factories and leaving industry after industry with over capacity. Foreign investment into Chine's manufacturing has exceeded US$ 700 billion over the past two decades. Along with this investment has come the introduction of modern manufacturing technology, management, marketing etc.

China's export juggernaut is a leading source of global deflationary pressure that is already dramatically affecting industry in the west and is now making significant inroads even into the industrial economies of the Asian tigers which are unable to meet the challenge of China's low prices, high quality and seemingly limitless supply.

It would not be an exaggeration to say that the rise of China has created a paradigm shift in the economics of basic industrial production and any country's industrialization strategy that fails to recognize this does so at its peril. As a case in point, I would like to take one of the "great" success stories of African economic development – Mauritius. Mauritius is actually not a very good example of the typical African economy as its very small size and population (1.2 million people), well-educated labor force, decades of experience in manufacturing and exporting garments, export friendly government policies and so forth. With the help of beneficial trade agreements, Mauritius exports almost US$ 1 billion per annum in clothing to the US and Europe.

To quote the Wall Street journal "but now this poster child for globalization is starting to see the downside of free trade. As trade barriers ease around the world, China and India are flooding the world's markets with their own textiles and undercutting Mauritius's prices by drawing on their own vast pools of cheap labor. Since the late 1990's, thousands of Mauritius have been cost out of the textile factories as they have been closed or downsized. The unemployment rate among Mauritius has gone from less than 3% to over 10%".

Many Sub-Saharan African countries are looking to textiles and garments as a growth industry lured by preferential trade agreements that cannot last. It is not a sustainable strategy.

In a global economy, following the current rules of global economic engagement, industrialization in Sub-Saharan Africa seems to be a dream.

3. WHAT CAN AFRICA DO?

No country in the world has developed without a well thought out development plan with the State playing the leading role. Historically industrialized countries governments have intervened and continue to chart the course and pace of industrial development through industrial policy. African governments no longer have planning ministries and have fully bought into the current orthodoxy in economic thinking that free markets and laissez-faire economics will solve our development problems. The plan is for governments to create macro-economic stability, build infrastructure, provide law and order, general education, foster a conducive "investment climate" and then get out of the way. It is not working.

If we agree that we are in a highly competitive global economy and that we must have an economic development strategy as nation states in a global market, we can move on to the components of a development strategy.

There are two broad alternative strategies of (industrial) development. One emphasizes the virtues of free markets and openness – the current orthodoxy. The second stresses government intervention and "protection". Time does not allow for much elaboration of the merits or historical experience of either approach, which is unfortunate as most discussions of these two broad strategic approaches tend to be incomplete, static and polarized. The main point I would like to make here is that development is a dynamic process-not a static one – and that these two strategic approaches are not mutually exclusive. Nations, depending on their competitive position within a global market place may adopt one strategy or the other and blend them over time or selectively apply a mix of either strategy to different sectors of their economy at any given time. It is not an either-or proposition so we don't all have to agree on the absolute correctness of any one strategy at any given moment or for any given economy.

I argue, however, that the verdict of history is clear. The development strategies of the Industrialized West, the Asian Tigers and China clearly indicate the success of the State led, interventionist/protectionist model in the early stages of development and the success of a more laissez faire free/open market model once an appropriate level of development and international competitive capacity has been built in the later stages of development.

Neither strategy works on it's own. It has always been the combination of the two strategies that has worked historically. The State led protectionist strategy, on its own, failed in Africa in the 60's and 70's and the free and open market strategy, on its, own is failing us now.

If we accept this view, then the next question is where is Sub-Saharan Africa in its development cycle. Clearly it is in a very early stage relative to its global competitors. If we accept that Africa is at a relatively early stage of development, a state led protectionist strategy aimed at transitioning to a more open laissez faire strategy would be what historical experience dictates.

I am of course generalizing and summarizing at the expense of much critical complexity, nuance and detail in the interest of time but I believe the conclusion is generally correct.

Next, I outline the logic that underpins a State led interventionist/protectionist strategy in general and for Africa in particular.

The fundamental strategic issues facing Sub-Saharan African economies seeking to industrialize in today's global economy are ones of market space and of competitive supply capacity.

The question of market space is one of trade policy. The trade policy tools historically and currently used by today's industrialized countries include:

Policies towards Imports

2 Non-tariff barriers
- Import quotas (eg 'voluntary export restraints; 'orderly marketing agreements')
- Import licenses
- Import deposit schemes
- Import surcharges
- Anti-dumping measures
- Special labeling and packaging regulations
- Health & safety regulations
- Customs procedures and documentation requirements
- Subsidies to domestic producers of import-competing goods
- Countervailing duties on subsidized imports
- Local content requirements
- Government contracts awarded only to domestic producers
- Exchange rate manipulation

Policies towards Exports

- Financial and fiscal incentives to export producers
- Export credits and guarantees
- Setting of export targets
- Operation of overseas export promotion agencies
- Establishment of Export Processing Zones and/or Free Trade Zones
- 'Voluntary export restraint'
- Embargo on strategic exports
- Exchange rate manipulation

The question of competitive supply capacity is one of state intervention and support. Common state intervention tools used in building domestic/export competitive capacity in industrial production include:

Policies aimed at stimulating industrial activity

Investment incentives:
- Capital-related
- Tax-related

Labour policies
- subsidies
- training

State procurement policies

Technology policies

Small firm policies

Policies to encourage industrial restructuring

Policies to promote Investment

Policies aimed at regulating industrial activity

State ownership of production assets

Marger and competition policies

Company legislation

Taxation policies

Labour regulation
- labour union legislation
- immigration policies

National technical and product standards

Environmental regulations

Health & safety regulations

Some or all of these policies may be applied either generally or, more commonly, selectively. Selectivity may be based upon several criteria, e.g.

1. *Particular sectors of industry e.g.*
   (a) to bolster declining industries
   (b) to stimulate new industries
   (c) to preserve key strategic industries

2. *Particular types of firm e.g.*
   (a) to encourage entrepreneurship and new firm formation
   (b) to attract foreign firms
   (c) to help domestic firms against foreign competition
   (d) to encourage firms in import-substituting or export activities

3. *Particular geographical areas e.g.*
   (a) economically depressed area
   (b) areas of 'growth potential' or of new settlement

Of course, I expect many in the audience to question the validity of my argument when pitted against conventional wisdom about what is and what is not an appropriate industrialization strategy for Africa. Am I saying – lets 'go back to the future?' – using commonly perceived failed models of the 60s and 70's? My response is that yes – in part – we do need to revisit these models and in so doing 'go back to the future'. But yes, we need to revisit these models in the light of the current reality of development. Experience shows us that the state has played a very important role in newly emerging economies of Asia. I posit that the state led- interventionist models of industrialization as implemented in the 1960s and 1970s in Africa was flawed in its incompleteness and poor implementation, which underpinned its failings. There is much we can salvage and much that we can add that can address the reality of the development dilemma that we as Africa face today. As Africans in newly emerging states in the international economic and political arena, we must come together to find solutions that protect our growth and reduce our poverty.

So, to put our agenda back in historical context - implementation of our previous State led interventionist strategies failed on two fronts: First; the lack of a strong, capable state with the ability to properly plan and implement (any) strategy. Second; the lack of vision in national and African strategy that could allow us as countries, and as a newly emerging trading blocs, to (sequentially) transition from inward looking interventionist/protectionist policies to dynamic, outward looking free and open market strategies. The experience of Asia proves the integrity of this model and the rise of china makes it mandatory if Africa is to have any hope of industrializing.

Ethiopia – A Case in Point

When we consider the specific case of Ethiopia and the two broad issues of market space and building competitive supply capacity, we need to recognize that we cannot address these issues effectively in isolation. We are poor and we are aid dependent. We are caught in the eternal dichotomy of dependency. On the one hand, we need aid for our sovereign survival. Without it, we are unable to deliver on the poverty reduction agenda. On the other hand, our dependency on aid means we are increasingly under pressure to adopt 'western' prescriptions for development – hinged around market liberalization – a growing conditionality of the aid given to us. This prevents us from addressing our growth agenda.

Ethiopia is not unique. Africa as a continent is facing the same challenge. We lack the capacity to negotiate as individual African states the development and growth strategies that I argue are appropriate for Africa today. We need to take a united front through regional and continental bodies to negotiate the issue of market space and time to integrate into global economy gradually as we build our competitive capacity.

In addition to this, and in this transition, we need to address the practical issue of the small size of Africa's national economies. We need a collective regional approach to create big enough markets to absorb the increasing levels of industrial output necessary to achieve critical economies of scale in industry.

Africa's future lies in our hands. It is clear that decades of western policy prescriptions have failed us. Africa is not in a position to exploit the benefits of globalization. We must find our own solutions. While we work toward achieving equal access to the global market through our global policy dialogue, we need to look toward ourselves to chart an African development strategy – without which industrialization of any meaningful scale or value added capacity cannot be a vehicle for growth in Ethiopia or wider Africa.

Thank you