



UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION



COUNTRY BRIEF ETHIOPIA

Industrial policy
driving structural
transformation

November 2020

explore – compare – analyse – iap.unido.org

Industrial policy driving structural transformation

COUNTRY BRIEF ETHIOPIA

Ethiopia's Growth and Transformation Plan II reflects an ambitious, export-oriented industrialization strategy inspired by the success of East Asian economies. While the Ethiopian government's commitment to industrial policy is already bearing fruit, continued efforts are required to sustain momentum and leverage foreign investment to strengthen local productive capacity and support structural change.

Viewed through the lens of commonly used economic indicators, Ethiopia's recent development can only be called an exceptional success story. By the mid-2000s, the country had entered a period of continuous rapid economic growth, with real GDP growth averaging 10.7 per cent between 2004 and 2017.¹ Meanwhile, the share of the Ethiopian population living in extreme poverty dropped from 67 per cent in 1995 to below 27 per cent in 2015.²

Industrialization efforts have brought promising first results

While agriculture has been key to the success of the Ethiopian development model, rapid

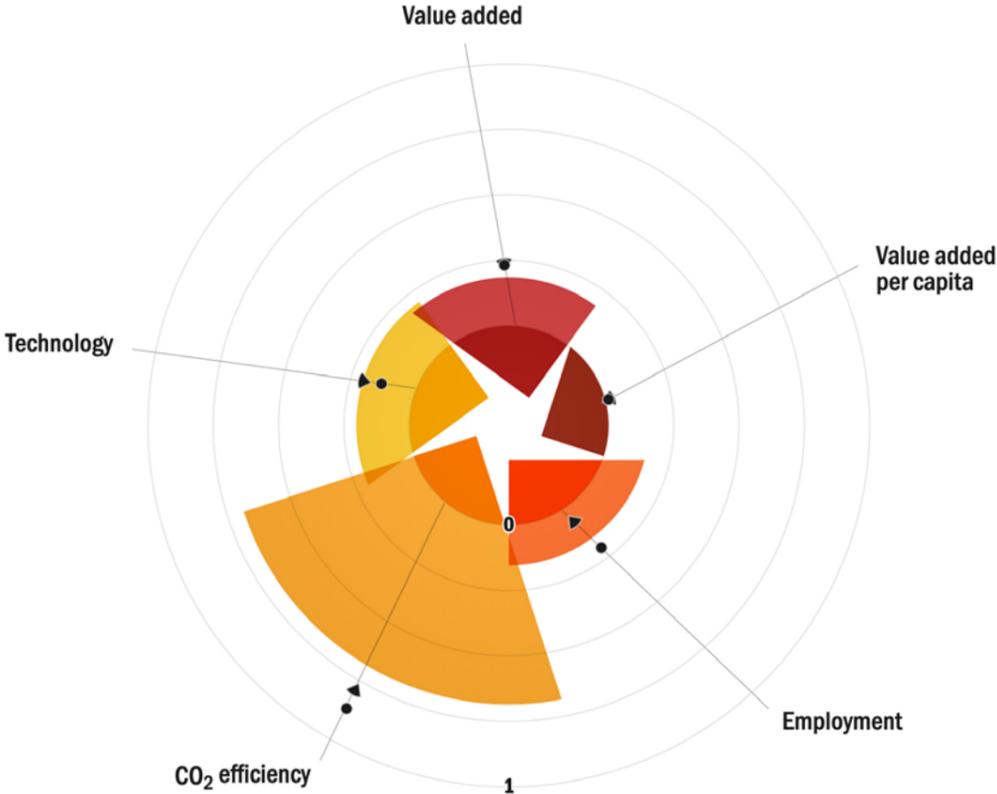
transformation of the national economy from an agriculture-based to an industrialized one is central to the current government's vision. Indeed, this vision underlies the country's primary strategic agenda, the Growth and Transformation Plan II (GTP II), and is foreseen as support for achieving lower middle-income status by 2025.

Judging from its performance in the SDG-9 Industry Index, Ethiopia has to still make considerable progress if it is to close the gap between its current level of industrial growth and those seen in successfully industrializing economies in Asia—and even some other countries on the African continent. Ethiopia currently ranks 114th among the 128 countries

featured in the SDG-9 Industry Index, significantly lower than other Least Developed Countries (LDCs) such as Bangladesh (83rd) and Senegal (89th) (Figure 1). The data for Ethiopia indicate lower levels than the African average in share of manufacturing in GDP and total employment; value added per capita; and CO₂ efficiency of production. Indeed, barring the share of employment, the same holds true when comparing Ethiopia to its neighbour Kenya. Only in share of medium- and high- technology industries in manufacturing value added (MVA) does Ethiopia surpass the African average.

SDG-9 Industry Index

↑ 114th



▼ Kenya
● Africa

Show all countries

Figure 1: SDG-9 Industry Index for Ethiopia in comparison to Kenya and Africa (UNIDO IAP)

Value added ↑ 110th

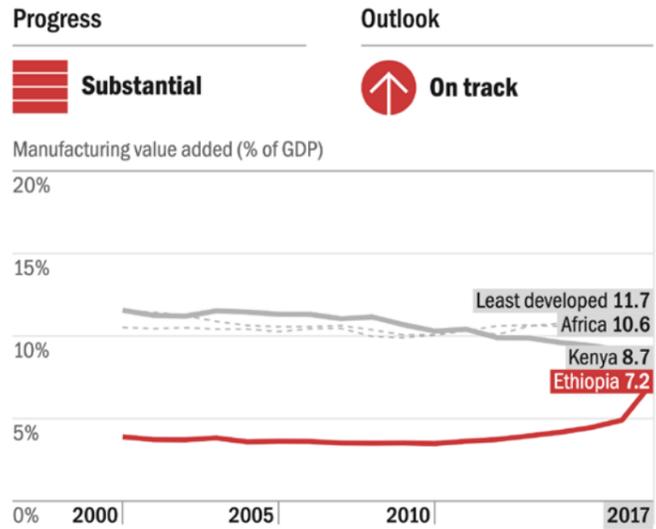


Figure 2: Manufacturing value added, 2000-2017 (UNIDO IAP)

Employment ↑ 111th

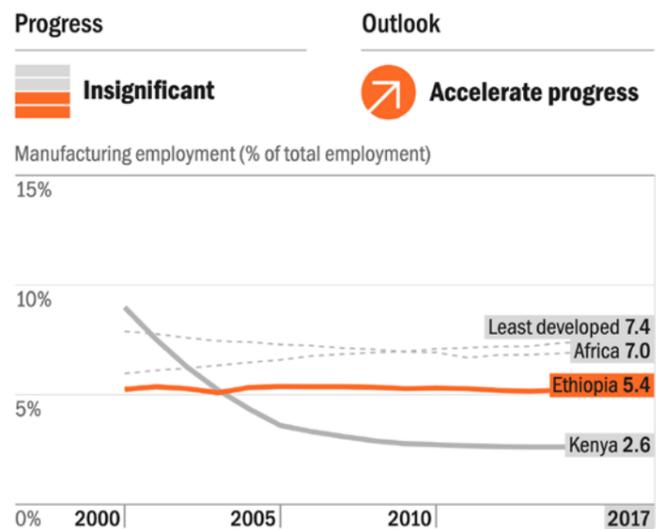


Figure 3: Manufacturing employment, 2000-2017 (UNIDO IAP)

However, Ethiopia's starting position has to be taken into account when assessing its performance—since 2000, the country has gained ten places in the ranking. This progress is best demonstrated by looking into the development of MVA as share of GDP.

While MVA in GDP remained relatively stable between 2000 and 2010 at around 3.5 per cent per annum, the share has since more than doubled, to 7.2 per cent in 2017 (Figure 2). Although no causal link can be inferred on that basis, it is clear that this trend correlates with the rollout of the two Growth and Transformation Plans, starting in 2010. It can therefore be concluded that in terms of MVA, Ethiopia is on track to achieve SDG Target 9.2 to double the share in GDP between 2015 to 2030.

Ethiopia's efforts to shift its workforce towards manufacturing activities have so far proven less successful. Recording a slight increase in the share of manufacturing employment in total employment, from 5.2 per cent in 2000 to 5.4 per cent in 2017, the country has managed to buck the negative trend seen in other African countries—exemplified by Kenya (Figure 3). However, Ethiopia has been unable to imitate the success of Asian LDCs, such as Bangladesh and Cambodia, in this area. By contrast, the East African country is still very far from reaching the ambitious SDG target of doubling the share of manufacturing employment in total employment by 2030.

Can Ethiopia follow the Asian Tigers?

Due to Ethiopia's high growth rates and interventionist economic policy stance, comparisons with Asian Tiger economies such as the Republic of Korea and Singapore are popular in the academic literature. These countries have been able to successfully follow an export-oriented industrialization model that has allowed a gradual upgrading of productive capacity by strategically leveraging foreign investment to enter global markets. The Republic of Korea and Singapore have thereby transformed from low-income to industrialized economies within a time frame of 30 years.³

It is certainly true that the Ethiopian political leadership has a history of playing a decidedly activist and strategic role in the country's economic development. Following largely agriculture-focused development strategies, manufacturing moved to the very core of the agenda with the adoption of the first Growth

and Transformation Plan (GTP I) in 2010. A central vision of this initial five-year plan was to establish an industrial sector that plays a leading role in the economy.⁴ The document also set ambitious targets such as a 20 per cent annual manufacturing growth rate and a five-fold increase in exports—with an increasing share coming from industry.⁵ Ethiopia's medium-term development goals branded under 'Vision 2025' explicitly target an MVA share of 18 per cent and aim to make Ethiopia the leading manufacturing hub in Africa by 2025.⁶

While the Ethiopian government has met with commendable success in attracting foreign investment and generating some growth in industrial output and exports, the targets set for 2015 were missed by a considerable margin. Apart from the institutional capacity bottlenecks and policy coordination issues, ineffective resource mobilization for strategic investment—a key feature of successful developmental states such as the Asian Tigers—has acted as a major constraint to industrial development.⁷ The failure to live up to the GTP's high expectations was recognized by the government in the follow-up five-year strategy Growth and Transformation Plan II (GTP II), formulated in 2015. While the main tenets of the original plan remain intact, the document also clearly indicates a reconsideration of strategy.

In concrete terms, the new plan places a distinctly stronger focus on mobilizing investment—particularly foreign direct investment (FDI)—in those strategic, labour-intensive light manufacturing industries where Ethiopia is considered globally competitive, and which therefore represent high export potential. The government aims to thereby further accelerate the growth of manufacturing exports.⁸

Although many countries around the world have attempted to imitate the Asian Tigers' success, the results have thus far been rather sobering. While inadequate infrastructure and a less favourable investment climate are often the reasons cited for failure, African economies have also been repeatedly found to be too

expensive in terms of labour and capital cost relative to productivity, to compete with Asian exporters. A recent study, however, suggests that Ethiopia could be an exception to the rule. The country has been identified as a potentially successful adherent to the Asian model of labour-intensive, export-oriented industrialization due to its emerging infrastructure and competitive labour costs.⁹

Ethiopia's GTP II priority sectors include three light manufacturing industries (agro-industries, textiles and apparel, leather and leather products) that are expected to play a key role in attracting foreign investment and boosting manufacturing exports.

Looking at the current structure of Ethiopia's manufacturing exports, we find that these industries already play an important role in the country's export basket. Taken together, products from these industries made up almost 70 per cent of total manufacturing exports in 2018 (Figure 4). The fact that each of these industries exhibit low-technology intensity is in line with the 'flying geese' model of development, in which Ethiopia focuses on producing low complexity goods for export, using its experience in producing for global markets to upgrade its technology and gradually shift towards more capital-intensive production.

Industry share of total manufactured exports (%)

Ethiopia	Share % ▼	Change
1 ↑ (L) Food & beverages	20.7	-1.5
2 ↑ (L) Apparel	20.1	+19.4
3 ↓ (L) Leather & footwear	19.5	-21.5
4 ↓ (H) Other transport	12.2	+0.5
5 ↓ (L) Textiles	9.2	+0.4

Show all +

(CEPII) 2018

(CEPII)

Figure 4: Industry share of total manufacturing exports (%), 2018 (UNIDO IAP)

INDUSTRIAL PARKS AS A KEY MECHANISM FOR MOBILIZING FDI



Within such an export-oriented development model, attracting FDI is crucial to acquiring the necessary technology and knowledge to successfully compete on global markets. If it is to fulfil its role in Ethiopia's medium- to long-term development agenda, FDI needs to be paired with targeted policies, thus facilitating technology transfer, linkages to domestic firms and gradual upgrading of the economy's position in value chains.

When equipped by governments with the necessary services and incentives, industrial parks have proven an excellent tool for building productive capacity in several Asian Tiger economies. By concentrating efforts on providing high-quality infrastructure and business services, as well as financial incentives for investors in strategically selected locations, agglomeration economies can be leveraged, which is particularly important when resources are limited.

The development of industrial parks has been at the centre of strategic efforts from 2015-2020, with the Government of Ethiopia committing to build 25 industrial parks by the end of 2020.¹⁰ Industrial parks already featured prominently in the first GTP after a phase of collecting lessons learned from several countries with experience in establishing industrial hubs; in Asia (the Republic of Korea, Singapore, China, Viet Nam) and Africa (Nigeria, Mauritius). However, the implementation of plans proceeded only slowly during the GTP I period due to limited capacity and experience.¹¹

Learning from the experiences of the first GTP, the Ethiopian government has updated the legislative, institutional and policy framework, defining objectives and assigning clear responsibilities to better guide the development of industrial parks.¹² Further, the government has placed greater emphasis on capacity development and the provision of services and other support measures to both domestic and foreign investors¹³

Positive results of this more strategic approach towards establishing industrial parks can already be observed. Of the 25 industrial parks planned for 2020, 10 had already started operations in 2019 (compared to only 2 by 2015¹⁴), 7 had finished construction, and 5 were under construction.¹⁵ FDI statistics show a similarly positive development in recent years: inflows almost quadrupled between 2011/2012 and 2016/2017, to US\$ 4.2 billion. No less than 80 per cent of these flows went to the manufacturing sector, contributing strongly to exports and employment in specific industries, such as textiles and apparel.¹⁶

Integrated Agro-Industrial Parks¹⁷

UNIDO and the Government of Ethiopia initiated the joint Programme for Country Partnership (PCP) in 2015, supporting the implementation of the GTP II. UNIDO participates in the governance and coordination of activities as well as the mobilization of resources for activities under the PCP, while also sharing its vast expertise in industrial development via technical assistance and policy advisory services. For example, UNIDO is a prominent contributor to the Integrated Agro-Industrial Parks (IAIPs) initiative, a priority initiative of the Government of Ethiopia.

Agro-industries, more specifically the food and beverages industry, account for approximately 52 per cent of all manufactured goods produced in Ethiopia. Nevertheless, these industries have long suffered from lack of investment due to poor quality infrastructure and inadequate supply of raw materials. The IAIPs initiative addresses these issues by providing businesses with state-of-the-art infrastructure in terms of facilities, essential utilities and business services across four industrial parks. UNIDO has been actively involved in both the design and implementation of the programme, providing knowledge (feasibility and value chain studies), but also resource mobilization. As of the end of 2019, US\$ 644 million had been raised for the initiative through international development partners. The construction completion status of the IAIPs stood at 50-70 per cent at the end of 2019. Already by that time, some 150 private companies had indicated their intention to relocate or establish businesses in the IAIPs.

Boosting Ethiopia's participation in global markets

The various developments outlined above demonstrate that Ethiopia's export-oriented approach to industrial development is already showing promising results. However, it must be noted that continuous efforts will be necessary to sustain the current dynamism following the period covered by the GTP II. Moreover, the manufacturing sector's general export performance still remains to be improved.¹⁸

Against the backdrop of falling goods exports in recent years, the share of manufacturing fell to 30.6 per cent, which is well below the African average (Figure 5). Manufacturing's export performance, without doubt an important benchmark for the success of the Ethiopian model, demonstrates that Ethiopia has yet to fully embark on an export-driven growth model.

As manufacturing exports could facilitate the structural transformation of the entire Ethiopian economy, it is thus pertinent to ask the question: What can be done to further boost manufacturing exports in coming years?

Continued focus on developing infrastructure and facilitating trade

Ethiopia has already made strong investments in physical infrastructure. Major air, road and rail projects, such as increasing the freight transport capacity of the national carrier Ethiopian Airlines, the Addis Ababa-Adama Expressway, and the Addis Ababa-Djibouti Railway, will significantly enhance the transport network's quality. However, improvements in "soft infrastructure", especially trade-related services such as export promotion, logistics and financing will be equally important. Further, the upgrading of the country's power sector is critical, as capacity will have to double until 2025 to meet rising demand. The decision to open the energy sector to private investment could potentially help prop up power generation and alleviate this constraint; however, transmission and distribution remain fully under the responsibility of the public sector.¹⁹

The OECD Trade Facilitation Indicators for Ethiopia point to considerable room for improvement in areas such as availability of information and simplification of

procedures.²⁰ Foreign market access of Ethiopian firms can be improved by propelling trade integration, e.g. via multilateral trade agreements. Ethiopia's participation in the African Continental Free Trade Agreement (AfCFTA) is a promising step in this direction. Since the country has already taken significant steps towards unilateral trade liberalization, accelerating WTO accession could provide additional positive signals to investors.²¹

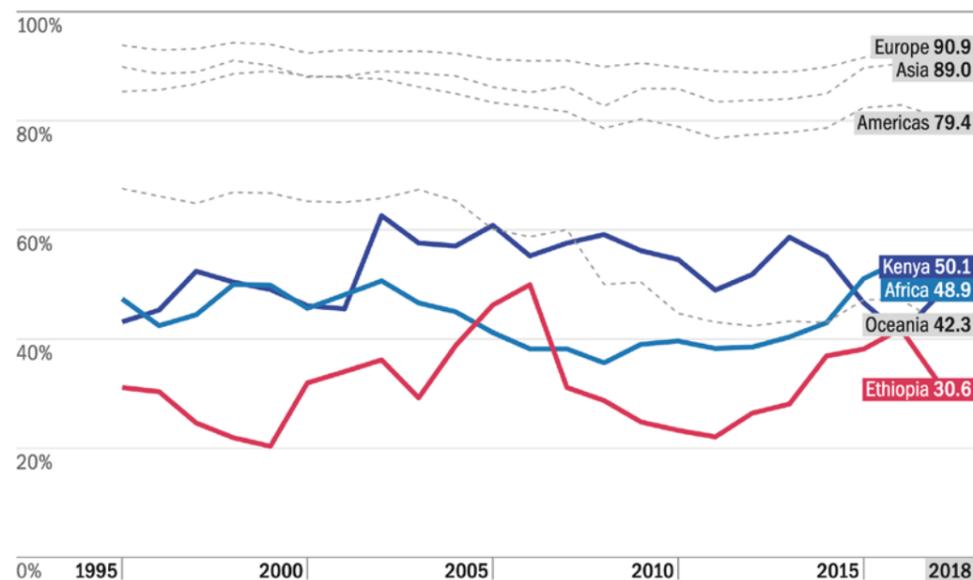
Strengthening domestic linkages and building capacity

From the perspective of economic development, attracting FDI and pursuing exports are not goals in themselves. Ideally, these activities should trigger a virtuous circle of learning and gradual upgrading, not only within FDI firms, but also in domestic enterprises, by way of linkages. However, if they are to engage with foreign firms, domestic firms must first build capacity. Only with the necessary skills and knowledge can local firms comply with the productivity benchmarks and high quality standards of foreign firms. A shortage of qualified labour can thus act as a serious bottleneck to industrial development.

While joint initiatives from industry, government agencies and development partners have achieved some progress in skill development and upgrading, structural issues such as weak workplace discipline and an insufficient institutional framework in the labour market have undermined progress in this area.²² Investment in training and vocational education, such as that conducted within the PCP, can address these shortcomings and, in the long run, establish a solid institutional base for skill development in Ethiopia.

Besides the lack of skills, a combination of other issues also contributes to the low participation of domestic firms in export-oriented activities. Access to long-term finance, for example, is one such critical constraint due to the limited capacity of public banks and lack of interest among the private banking sector in investing in productive activities.²³ By way of conclusion, more support should be provided to local firms in expanding their capacity to build linkages to export-orientated foreign firms and engage in learning activities.

① Manufactured goods in total merchandise exports (%)



(CEPII)

Figure 5: Manufactured goods in total merchandise exports (%), 1995-2018 (UNIDO IAP)

References

- 1 World Bank, 2020. World Development Indicators (Indicator ID: NY.GDP.MKTP.KD.ZG). Available at: <http://datatopics.worldbank.org/world-development-indicators/>.
- 2 World Bank, 2020. World Development Indicators (Indicator ID: SI.POV.DDAY). Available at: <http://datatopics.worldbank.org/world-development-indicators/>.
- 3 Hauge, J., 2019. Should the African Lion Learn from the Asian Tigers? A Comparative-Historical Study of FDI-Oriented Industrial Policy in Ethiopia, South Korea and Taiwan. *Third World Quarterly*, 40(11), pp. 2071-2091.
- 4 Ethiopia, Finance and Economic Development, 2010. Growth and Transformation Plan (2010/11-2014/15). Volume I: Main Text. Addis Ababa: Ministry of Finance and Economic Development.
- 5 Oqubay, A., 2015. Made in Africa. Industrial Policy in Ethiopia. Oxford: Oxford University Press.
- 6 UNIDO. Programme for Country Partnership Ethiopia. Available at: <https://www.unido.org/programme-country-partnership/ethiopia>; Ababayehu, A., 2018: Ethiopia. An Emerging Manufacturing Hub in Africa. Presentation at the Second International Agro-Industry Investment Forum on 5 to 8 March 2018 in Addis Ababa. Available at: <https://www.unido.org/sites/default/files/files/2018-08/Ethiopia%20-%20An%20Emerging%20Manufacturing%20Hub%20in%20Africa%20Final%20Agro-Forum.pdf>.
- 7 Oqubay, A., 2015. Made in Africa. Industrial Policy in Ethiopia. Oxford: Oxford University Press.
- 8 Oqubay, A., 2019. Structure and Performance of the Manufacturing Sector. In: The Oxford Handbook of the Ethiopian Economy, eds. Cheru, F., Cramer, C. and Oqubay, A., Oxford: Oxford University Press, pp. 630-650.
- 9 Gelb, A., Ramachandran V., Meyer, C.J., Wadhwa, D. and Navis, K., 2020. Can Sub-Saharan Africa Be a Manufacturing Destination? Labor Costs, Price Levels, and the Role of Industrial Policy. *Journal of Industry, Competition and Trade*, 20, pp. 335-357.
- 10 Oqubay, A. and Kefale, D.M., 2020. A Strategic Approach to Industrial Hubs: Learnings in Ethiopia. In: The Oxford Handbook of Industrial Hubs and Economic Development, eds. Oqubay, A. and Lin, J.Y., Oxford: Oxford University Press, p. 877-913.
- 11 Ethiopia, National Planning Commission, 2010. Growth and Transformation Plan II (GTP II) (2015/16-2019/20). Volume I: Main Text. Addis Ababa: National Planning Commission.
- 12 Oqubay, A. and Kefale, D.M., 2020. A Strategic Approach to Industrial Hubs: Learnings in Ethiopia. In: The Oxford Handbook of Industrial Hubs and Economic Development, eds. Oqubay, A. and Lin, J.Y., Oxford: Oxford University Press, p. 877-913.
- 13 Ethiopia, National Planning Commission, 2010. Growth and Transformation Plan II (GTP II) (2015/16-2019/20). Volume I: Main Text. Addis Ababa: National Planning Commission.
- 14 Ethiopia, National Planning Commission, 2010. Growth and Transformation Plan II (GTP II) (2015/16-2019/20). Volume I: Main Text. Addis Ababa: National Planning Commission.
- 15 Oqubay, A. and Kefale, D.M., 2020. A Strategic Approach to Industrial Hubs: Learnings in Ethiopia. In: The Oxford Handbook of Industrial Hubs and Economic Development, eds. Oqubay, A. and Lin, J.Y., Oxford: Oxford University Press, p. 877-913.
- 16 Oqubay, A., 2019. Structure and Performance of the Manufacturing Sector. In: The Oxford Handbook of the Ethiopian Economy, eds. Cheru, F., Cramer, C. and Oqubay, A., Oxford: Oxford University Press, pp. 630-650.
- 17 UNIDO. PCP Annual Report 2019. Vienna: UNIDO.
- 18 UNIDO, 2020. Industry and Country Profile – Ethiopia. Unpublished.
- 19 Ibid.
- 20 OECD, 2019. Trade Facilitation Indicators. Available at: <https://www1.compareyourcountry.org/trade-facilitation/en/1/ETH/ETH/default>.
- 21 Gebrehiwot, B.A., 2019. Trade Policy in Ethiopia, 1991-2016. In: The Oxford Handbook of the Ethiopian Economy, eds. Cheru, F., Cramer, C. and Oqubay, A., Oxford: Oxford University Press, pp. 230-248.
- 22 Oqubay, A., 2019. Structure and Performance of the Manufacturing Sector. In: The Oxford Handbook of the Ethiopian Economy, eds. Cheru, F., Cramer, C. and Oqubay, A., Oxford: Oxford University Press, pp. 630-650.
- 23 Ibid.

Acknowledgement

This country brief has been developed by UNIDO's Industrial Analytics Platform team.

It has benefited from valuable inputs from Ambassador Girma Birru, Macroeconomic Advisor to Prime Minister Abiy Ahmed, and the UNIDO Regional Office in Ethiopia.

We thank Joseph Twomey and Niki Rodousakis for their editorial guidance.

© UNIDO 2020. All rights reserved.

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as "developed", "industrialized" or "developing" are intended for statistical convenience and do not necessarily express a judgement about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.



explore – compare – analyse – iap.unido.org

UNIDO's Industrial Analytics Platform

The [UNIDO Industrial Analytics Platform \(IAP\)](https://iap.unido.org) is a data-driven knowledge hub which provides novel insights into industrial development around the world. The online platform combines state-of-the-art data visualisation tools with policy relevant expert analysis.

The [SDG-9 Industry Tracker](https://sdg9.unido.org) helps monitor and benchmark countries' performance and progress towards SDG-9 industry-related targets. The Tracker is built upon UNIDO's SDG9 Industry Index, a novel composite index describing different dimensions of inclusive and sustainable industrial development.

To learn more about the tool visit iap.unido.org/data.

You can contact us at iap@unido.org.

