

# **"What Does the Ethiopian Economy Want": industrialization-led structural transformation**

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*"The great question that has never been answered, and which I have not yet been able to answer, despite my thirty years of research into the feminine soul, is 'What does a woman want?'" -From Sigmund Freud: Life and Work by Ernest Jones, 1953*

The famous question 'What does a woman want?' was formulated by Sigmund Freud, father of psychoanalysis, in his letter to Princess Marie Bonaparte, a great-grandniece of Emperor Napoleon I of France, who was herself an author and psychoanalyst. Although the question "What does woman want?" had occupied him all his life, Freud had never been able to answer it. The question "what does the Ethiopian economy want" has occupied all of us for the last forty years and it seems that we are still searching for the right answer.

According to my research results, what the Ethiopian economy needs is industrialization-led structural transformation. The consequences of exponential population growth can only be solved through rapid industrialization. Ethiopian population growth needs increase in the scale of production and it is only manufacturing industrialization that increases the scale and the speed that the rate needed. At the present the country needs an instantaneous transformation in the structure of production, employment and sectoral composition of economic activities. The objectives of industrialization-led structural transformation are overcoming production scarcity and creation of productive employment. In my previous posting I attacked the idea of agriculture-led growth and transformation idea and called for a paradigm shift in development thinking. The continues need for capital and technology can only be realized through rapid industrialization and I have outlined six policy instruments to realize the objectives. In this essay I will emphasis the strategies that makes industrialization in Ethiopia rapid. There are three long-term measures that can be undertaken to achieve the objectives of industrialization-led structural transformation.

### **First Strategy: industrialization by all means**

Is industrialization driven by the state (policy agenda or structure of power) or the market? Which of the two forces create a rapid accumulation of capital and technology and why? Some political parties in the country prefer to have a free market, in which the ownership of property and means of production are entirely privately owned. Others advocate statist intervention and consider market's incentives as selfish. My view is that the market mechanism can be relied on to take care of the production problems of an economy, but investment allocation requires state intervention. The social overhead capital like transport, communication, power, urban infrastructure, etc. have to be in place before private entrepreneurs could decide to install directly productive capital. Once the productive capacities are created through investment planning, the subsequent problems of getting output, employment and income out of these investments will resolve themselves automatically through market mechanism. To be successful state investment decisions must be based on meritocratic bureaucracies. Because of high demand for capital and technology, industrialization in Ethiopia should be realized by the intervention of the market and the state.

### **Second Strategy: there should be process of industrialization in medium and small towns (spatial decentralization of industries)**

Industrial decentralization is defined as the spread manufacturing employment and enterprise management from major cities to rural towns through a phased transition. I advocated industrial decentralization to bring about balanced growth and absorb the rural surplus labor in its own proximate location (to curb long distance internal and international migration). The reason for a strategy of industrial decentralization is related to the growth and structure of the Ethiopian urban centers.

By default the regional pattern of urbanization in Ethiopia is already unbalanced. The level of urbanization varies regionally, ranging from nearly 100 per cent in Addis Ababa to 8,7 per cent in SNNPR. Establishing of industries along the current tendency of internal migration will worsen urban problems related to high costs of food, housing, transport, basic services and health.

An increasing trend in the number and size of middle class towns has created a favorable condition for balanced regional growth/development. Over the last decades the number of

small and medium towns has increased in the country. Small and medium size towns can help bring about balanced regional growth/development because of their relative higher numbers (constituting 44,6 % of the urban centers of the country), fair spatial distribution (proximity to the rural surplus labor), low-wage opportunity and their embeddedness in the agricultural hinterland. They can serve as a socially and economically viable alternative to the concentration of population and of economic wealth in a few eight big cities. For details see [http://aigaforum.com/articles/condition\\_forms\\_industrial.php](http://aigaforum.com/articles/condition_forms_industrial.php)

### **Third strategy: industrialization through big push or simultaneously**

The strategy of big push (high investment and simultaneous industrialization) is related to the idea of coordination failure between firms. Demand for a manufacturing activity depends on whether other manufacturing activities are already in place. Firms application of increasing returns to technology or scale depends if there is a demand from other private or public sectors. Lack of co-ordination (or lack of demand spillovers) between firms can result in lack of industrialization. In case of Ethiopia industrial firms are working under capacity because of supply factors (shortage and inferior quality of raw materials, shortage of working capital, lack of availability of spare parts locally and long lead time for imported spare parts and infrastructural problems like shortage of water, interruption of power and availability of land).

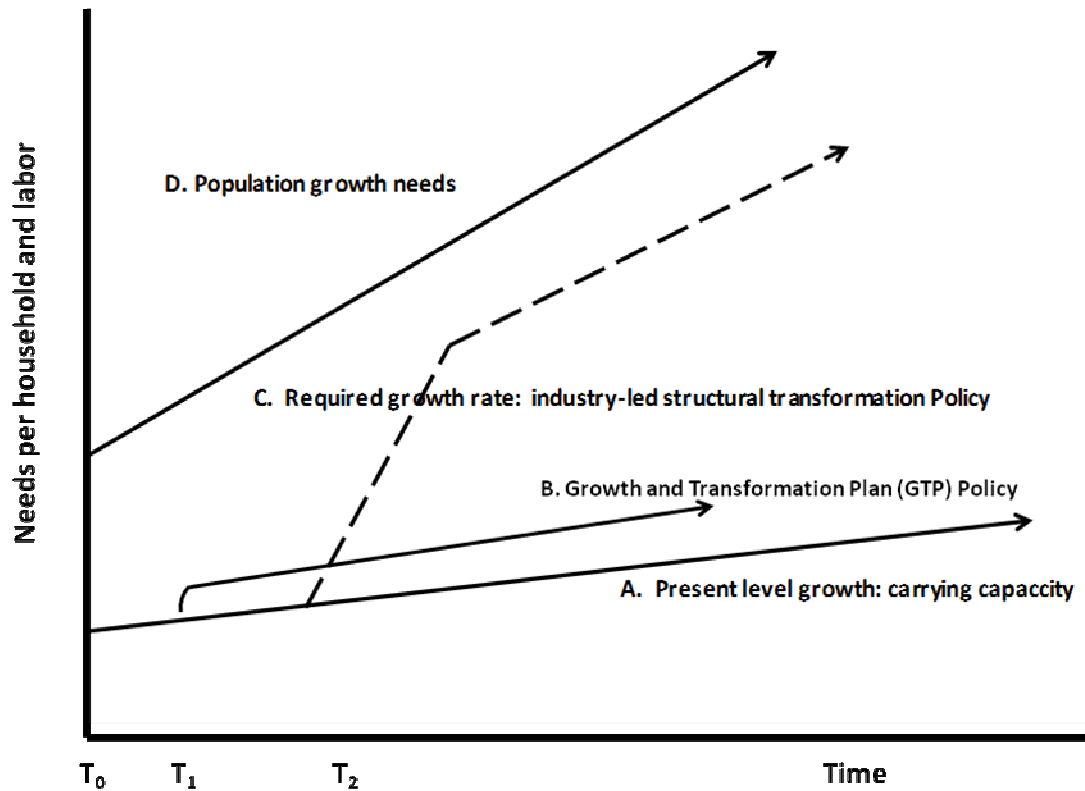
Some of the external problems of industrial firms can be avoided through high investment and the establishment of secondary manufacturing industries and the creation of demand linkages. Since industrialization in one sector raises demand for other manufactures, there is a need for investment coordination (a “Big Push” or simultaneous industrialization) to trigger market expansion.

### **Why Ethiopia needs rapid industrialization by all means, everywhere and through big push?**

The three strategies are needed to produce growth rate effects on outputs (food shortage and employment) as opposed to level effect. Growth rate effect helps to catch up with rapid population growth needs. The recent story titled " Ethiopian Migrants Expelled by Saudis Remain in Limbo Back Home" is a good example of the inability of the current economy wide programs to absorb surplus labor. (see

<http://www.nytimes.com/2014/01/08/world/africa/ethiopian-migrants-expelled-by-saudis-remain-in-limbo-back-home.htm>)

**Figure 1 The growth rate effects of rapid industrialization by all means, everywhere and by big push**



Industrial policies can have growth and/or level effects . The policy instruments and strategies of industrialization-led structural transformation have more growth effects (modifying growth path at higher rate) than level effects (raising the slop slowly). Figure 1 suggest that industralization-led structural transformation policy instituted at time T2 can instantaneously change the slope of the growth path -- as illustrated by the dotted path C. There are six elements of this policy instruments described in synchronized form and for details see <http://aigaforum.com/articles/how-to-create-rapid-and-quality-jobs.pdf>.

The technical features of carrying capacity (line A) are discussed in <http://aigaforum.com/articles/Ethio-Population-Growth-Consequences-2013-07-07.pdf>. According to my observation GTP policy (line B at time T1) has level effect. GTP does not mean rapid industrialization (for my comments on GTP see [http://aigaforum.com/articles/reflection\\_on\\_gtp.php](http://aigaforum.com/articles/reflection_on_gtp.php)). For technical models of line D see

[http://aigaforum.com/articles/GreenRevo\\_Industrial\\_policy\\_Ethiopia.pdf](http://aigaforum.com/articles/GreenRevo_Industrial_policy_Ethiopia.pdf): and  
[http://aigaforum.com/articles/Green\\_Revolution\\_PartTwo.pdf](http://aigaforum.com/articles/Green_Revolution_PartTwo.pdf)

When compared to GTP, the growth effects of industrialization-led structural transformation clearly dominates its level effects and this is due to its policy assumption, strategies and instruments. According to my estimation if industrialization is to raise by 3 percent, employment creation and output per worker would raise by five percent. That means the population crash in Ethiopia will be solved in fifteen years time. It might take for 40 years if one follows the current agriculture-led growth and transformation policy.

Our past experiences show that we are trying to come up with an economic solution based on political and/or ideology- led transformation and the question '*What does a woman want?*'– is still perplexing. It is now time to shift to a new paradigm where the consequences of exponential population growth of the country determines the solution. I advocate for industrialization-led structural transformation and not agriculture-led growth and transformation. I say also rapid industrialization and democratization and not democratization and industrialization. History shows that countries achieve industrialization long before true democratization all but through meritocratic bureaucracy.

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