

Ethiopia: Political Regime and Development Policies*

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1. Introduction

Agricultural Development Led Industrialization (ADLI) is the policy principle adopted by Ethiopia, a low-income country, to promote its national development. The initial idea of ADLI was formulated with the establishment of the Interim Government in the early 1990s, which was subsequently elaborated in stages and put into serious implementation in the early 2000s. On the other hand, Democratic Developmentalism (DD) is a political regime which supports the execution of this development strategy. DD and ADLI constitute a complementary set which stipulates the political and the economic aspect of development respectively¹.

By adopting DD and ADLI, Ethiopia intends to radically transform the state management paradigm, politically and economically, from the system in which *rent seeking* is the dominant behavioral pattern to the system in which *value creation* is dominant. This reflects Ethiopia's deep disappointment with the previously ruling paradigms: the paradigm of predatory state which was the root cause of rent seeking in Africa, as well as the neo-liberal paradigm introduced from outside in the 1980s and the 1990s with the stated purpose of eradicating such rent seeking but, according to the Ethiopian leaders, failed miserably in that attempt. Based on the rejection of both paradigms, an alternative development paradigm is proposed. The purpose of this paper is to describe and assess DD and ADLI as the models of political regime and policy principle for development; our intention is not to offer a comprehensive review of the current developmental situation of Ethiopia, of which DD and ADLI constitute only one component².

Before analyzing the details of DD and ADLI, let us first list four general features of DD and ADLI.

First, Ethiopia has a grand plan of removing the existing development paradigms and building a new one. It

* This paper, which summarizes the main features of DD and ADLI, was prepared for the purpose of setting the theoretical background and securing common understanding for the subsequent policy dialogue with the Ethiopian Government. The author alone bears the full responsibility for analyses and assessments contained in this paper. The author is grateful to the comments by the policy makers and researchers in Japan and Ethiopia. No part of the arguments in this paper expresses the official view of the Japanese Government or the Japan International Cooperation Agency.

¹ The basic documents on Ethiopia's DD are Meles (2006) and Meles (2008, preliminary draft not for quotation?), while general research on DD, including for other countries, is found in Edigheji (2005, derived from joint research initiated in South Africa) and Robinson and White (1998). For ADLI, the key literature are the internal document of the Ethiopian Government in 1994 and the PASDEP 2005/06-2009/10 which embodies the principles of ADLI.

² To review the political and economic situation of Ethiopia, the analytical scope should be enlarged, from DD and ADLI as the model regime and policy principle, to the concept of Revolutionary Democracy, ethnic balance, federalism, opposition parties and anti-government groups, NGOs and CSOs, the Diaspora, foreign relations, international organizations, and donors (including emerging donors such as China, India, and Turkey).

is only natural that it wants to discard the paradigm of predatory state, but it also refuses to accept any partial modification or re-trial of the neo-liberal paradigm for the stated reason that its fault is deep and fundamental. This is an intellectual challenge that carries a potentially significant bearing, but its rhetoric often inclines to be polemical because of the need to differentiate itself from the past. In other words, we must be well guarded against prejudice and emotion in analyzing and assessing the proposed paradigm.

Second, DD and ADLI go beyond theoretical hypotheses or thought experiments to become very pragmatic and action-oriented guidelines to inform the legitimacy and the policy formulation and implementation of the present Ethiopian Government. In particular, ADLI is not merely an academic concept but a crucial principle upheld by strong leadership and shared by every official of the Government, which regulates the drafting processes of PASDEP, master plans and other policy documents as well as Ethiopia's relationship with donors and foreign businesses.

Third, the proposed development strategy is initially for Ethiopia but also meant for the application in other African countries in the medium to long run provided that necessary adjustments are made to reflect the uniqueness of each country. However, for DD and ADLI to be accepted by other developing countries and international organizations, they must be implemented effectively in Ethiopia with good initial results. Initial results, in turn, will depend not only on policy quality but also on other factors such as weather, regional stability and global booms and busts which are beyond the control of the Ethiopian Government.

Fourth, as developmental concepts DD and ADLI do not seem to contain any fatal flaw in logics. Its difficulties will probably arise not from the lack of formal consistency but from feasibility and operational modality in the process of implementation. The quality of strategies and tactics will matter there. The jury is still out and we are at this point unable to confirm the viability of DD and ADLI as the new development paradigm. While the Ethiopian economy accelerated since 2003/04, it is too early to conclude that policy innovation was the main cause. The proponents of DD and ADLI face the task of preparing the preconditions for and removing the obstacles of their effective implementation one by one.

Table 1. Ethiopia: Basic Statistics

(Ethiopian year) (Western year)	1991 1998/99	1992 1999/00	1993 2000/01	1994 2001/02	1995 2002/03	1996 2003/04	1997 2004/05	1998 2005/06	1999 2006/07	2000 2007/08
Real GDP growth (%)	5.2	6.1	8.3	1.5	-2.2	13.6	11.8	10.8	11.1	11.3
Nominal GDP (millions of Birr)	58,789	66,648	68,027	66,557	73,432	86,661	106,473	131,641	171,834	245,585
Nominal GDP (millions of USD)	7,828	8,188	9,167	7,794	8,559	10,042	12,306	15,164	19,539	27,939
GDP per capita (USD)	129	131	127	118	126	143	171	205	257	357
Sector share (% of GDP) ^{1/}										
Agriculture	51.2	49.8	50.9	49.1	44.9	47.0	47.4	47.1	46.3	44.6
Industry	12.4	12.4	12.1	12.9	14.0	14.0	13.6	13.4	13.3	13.1
Service	37.2	38.7	38.0	38.6	41.7	39.7	39.7	40.4	41.4	43.4
External relations (% of GDP)										
Export	11.6	12.0	12.0	12.6	13.3	14.9	15.1	13.8	12.7	11.8
Import	24.0	23.9	23.7	26.6	27.4	31.6	35.5	36.5	32.1	26.9
Trade deficit (export - import)	-12.4	-11.9	-11.7	-14.0	-14.1	-16.7	-20.4	-22.7	-19.4	-15.1
Total trade (export + import)	35.6	35.9	35.7	39.2	40.7	46.5	50.6	50.3	44.8	38.7
FDI (approval, millions of Birr)	1,080	1,627	2,923	1,474	3,369	7,205	15,405	19,980	46,949	92,249
(approval, % of GDP)	1.8	2.4	4.3	2.2	4.6	8.3	14.5	15.2	27.3	37.6
Population (million)	60.8	62.9	64.4	66.3	68.2	70.1	72.1	74.1	76.1	78.2
Population in rural area (%)	85.5	85.3	85.1	84.9	84.7	84.4	84.2	84.0	83.8	82.9
Population in poverty (%)	-	41.9	-	-	-	-	38.7	-	-	-
Exchange rate (Birr/USD, period average)	7.51	8.14	8.33	8.54	8.58	8.63	8.65	8.68	8.79	8.79

Sources: Ministry of Finance and Economic Development, National Bank of Ethiopia, and Ethiopian Investment Agency.

^{1/} Do not add up to 100% due to estimate errors of intermediary margins of financial institutions (service sector).

From the perspective of shifting paradigms, the success of DD and ADLI hinges critically on the balance between the inertia of the old paradigm and the energy required for the emergence of the new paradigm. The evolutionary theory of scientific paradigms tells us that any paradigm, once firmly established, will not go away simply because the gap between its predictions and reality arises (Kuhn 1970, Lakatos 1970). This is because each paradigm is equipped with self-defense mechanisms such as professional societies, academic journals, and scholarly promotion systems and also guarded by vested interests. To overcome these barriers and replace the old paradigm by a new one, certain conditions for breakthrough are needed including (i) a sufficiently large accumulation of “failures” of the old paradigm; (ii) emergence of an alternative paradigm equipped with theoretical formality; and (iii) good initial performance of the new paradigm. When these conditions are attained beyond certain limits, a paradigmatic shift will occur like an avalanche. In the Ethiopian context, a shift in the developmental paradigm will be confirmed when domestic supporters and political coalitions emerge strongly, donors and international organizations start recognizing and supporting it, and a number of other developing countries begin to approve and adopt it.

The international community should be seriously interested in the Ethiopian effort to spearhead the shift in the development paradigm. Regardless of its final outcome, it will raise an important question not only for the development of Ethiopia but also for the development strategies of the rest of Africa and even the entire international community. We recognize that the simultaneous pursuit of DD and ADLI is a historically unprecedented attempt, and that the implementation in Ethiopia is only several years old. Avoiding either total negation or unconditional approval, we should take a balanced position, be patient enough to give it a fair try, provide reasonable assistance as an interested observer and, when needed, offer constructive criticism in an open policy forum.

The paradigmatic shift which Ethiopia envisages is largely inconsistent with the traditional political and economic conditionalities of the Western donors. By contrast, it shares more commonalities with the traditional development strategies in East Asia although they are not the same. Japan and other donors from East Asia should play appropriate roles in assisting the development of Ethiopia. Specifically, the following should be seriously considered: (i) formulation and dissemination of the “East Asian experiences” which are both pragmatic and consistent with the policy context of Ethiopia; (ii) introduction of concrete components of Japanese industrial assistance such as 5S and *kaizen*, (iii) assessment of Ethiopia’s development policies from the perspective of East Asia; and (iv) suggestions for improving implementation mechanisms such as master plans, action plans and monitoring mechanisms. With proper preparation and due deliberation, there is much that East Asia can offer to the development of Africa.

2. Democratic Developmentalism

Democratic Developmentalism (DD) is defined to be “a political regime in which a developmental party remains in power for a long time by consecutively winning free elections which permit multiple parties, under which policies that punish rent seeking and encourage productive investment are implemented with a strong state guidance.” This should be construed as a model which Ethiopia is trying to attain rather than an already-established and well-functioning political regime.

The transformation of development strategy must begin with politics because, in the recognition of the Ethiopian leaders, the developmental failure of Africa comes not only from the theoretical and technical shortcomings of economic policy but also, more fundamentally, from political factors such as the existence or absence of the will, the regime, and the leaders that are determined to resist private profiteering and promote national development. For this reason, a political regime consistent with national development must be installed in parallel with or even before the formulation of concrete policy measures. Here, the developmental state is a regime that mobilizes available resources to build institutions, policies, and incentive systems to stimulate domestic value creation (i.e., productive investment). Moreover, this endeavor must be undertaken under the rules of democracy rather than authoritarianism. Under DD, the fruits of successful development are expected to win popular support, which is confirmed through a series of elections. Thus, the developmental state earns legitimacy and keeps its power for a long time through both economic performance and democratic procedure.

Let us look at the three important components of the DD model: the introduction of democracy, the active role of the government, and the political support base.

(1) Introduction of democracy

The DD model aims at building a political regime unique to Ethiopia, which is different from the East Asian Authoritarian Developmentalism (AD) which postpones democracy for the sake of development, or the Western style “good governance” that requires an early adoption of highly advanced governing principles in latecomer developing countries. Needless to say, the kind of democracy that can be meaningfully adopted in a very poor country is not its ideal type equipped with full conditions. Democracy is not an all-or-nothing choice; it comes with a large number of variations that reflect the history and structure of each society. Its development stage ranges from elementary democracy equipped with minimum formality to full democracy that realizes popular participation, political competition, and policy debate in the true sense. In this light, DD can be construed as a variation of democracy which is realistic, manageable and consistent with the national goal of a poor country that faces many constraints and problems.

Why should a country in an early stage of development adopt democracy instead of authoritarianism? One reason is the inherent and universal importance of democracy itself such as freedom, human rights and participation. Another reason would be to expect democracy to provide the procedure to secure legitimacy and maintain unity of a multi-ethnic nation and the means to gain popular support to developmentalism and development projects. Moreover, in the world of the 21st century in which we live, it must be noted that no country, regardless of its development stage, could be admitted as a valid member of the international community and receive aid and cooperation unless it embraces a democratic form of government. This is an international environment sharply different from the one in which Taiwan or Korea faced during the Cold War era. In summary, the combined adoption of developmentalism and democracy is required not only for the inherent value of democracy but also from strong pressures from within and without.

The kind of democracy envisaged under DD is the basic one that holds free elections with multiple parties and guarantees the minimum level of basic freedom and basic human rights. This also overlaps with the core elements of the democracy required of developing countries by the West and the international community. In a more advanced democracy, many additional elements are required besides the core elements, and free and open policy debates and political choices in the true sense must be ensured. For example, the “good governance” indicators of the World Bank--voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, control of corruption--must be fully in place. All disputes must be solved peacefully in the spirit of mutual respect, tolerance, and compromise. In a highly developed democracy, the two-party system may exist in which different political parties with sufficient governing capability compete and the people can actually exercise their right to choose by voting. The democracy that Ethiopia can introduce today is not an ideal type such as this.

Under DD, a legal procedure for political transition is installed, while the ruling party is determined to stay

in power for a long time for an effective execution of developmental policies. It may be argued that these requirements are in conflict with each other, at least formally. If the possibility of power change is a real one, it is highly unthinkable that one party will consistently keep winning elections for a number of decades. Every time a new government comes into power, previous policies will be abandoned and the long-term consistency of developmental policies will be lost. By contrast, if DD has a hidden mechanism which effectively prevents the opposition from winning, there is no real democracy and the opposition and anti-government groups will certainly cry foul. Does this discredit the notion of DD? We should take note of the fact that, in many developing countries, long-term stability of government is realized under formal democracy by the use of various tools available to the ruling party such as the distribution of benefits, social and economic organizations which support the incumbent government, regulation of activities by opposition parties and anti-government organizations, and so on.

How can the developmental party of Ethiopia stay in power for a long time despite free elections in which multiple parties compete? The answer probably is by persuading the people on the need to launch a new developmental paradigm and by achieving initial successes in its implementation. This will lead to the formation of domestic political coalition supportive of developmentalism and allow the government to execute more developmental policies. This virtuous circle will ensure victory in coming elections. In this scenario the main political base of the ruling party is smallholder farmers which account for 80% of the population. Small producers in urban areas are also considered to be part of the support base although their number is not very large at this moment (for the political base of DD see below).

This is a political regime called “dominant party democracy” or, alternatively, “dominant coalition democracy” if political coalition with domestic groups is underscored. In one sense, this is akin to Japan’s regime under the dominance of the Liberal Democratic Party (LDP) since 1955. Equipped with near-perfect democratic institutions (at least formally) and through a series of free elections, LDP has stayed in power alone or by forming a coalition with other parties for over a half century (except for a short interruption). Its power base is rural. However, the political regime aspired by DD has one crucial difference from the LDP regime in Japan. That is the fact that LDP has miserably failed to improve the productivity of agriculture and has managed to stay in power by continuous re-distribution of benefits to farmers and rural residents through subsidies, protection, and prioritization of public works. Japan, with high income and advanced industries, may have the luxury of pampering farmers. However, being one of the poorest countries in the world, Ethiopia cannot follow such a model. The combined DD and ADLI will never succeed unless there is a significant breakthrough in the productivity of agriculture. This is a very important point to which we will later return.

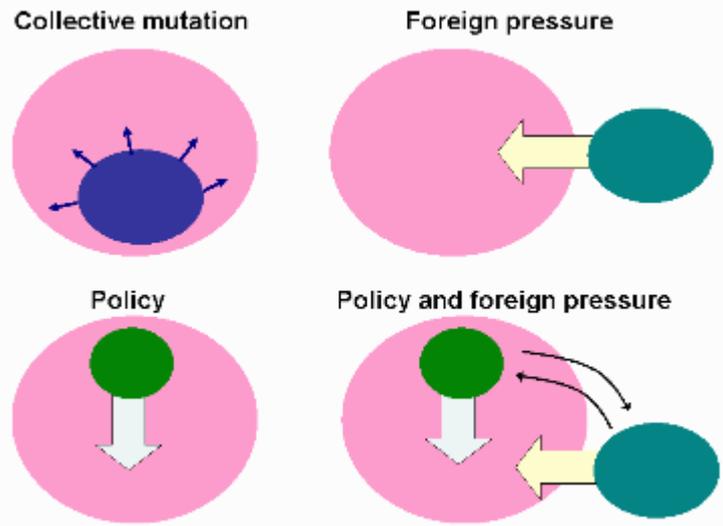
Although DD has a connotation that the ruling party will stay in power for a long time, a poor country that adopts democracy rather than authoritarianism still can expect certain benefits for its people as well as for its political development. In addition to being able to enjoy freedom, human rights and participation which

are inherent in democracy, the holding of national election every five years will make even the long-term government sensitive to and accountable for popular demand, criticism from the opposition, the quality of policies, corruption, and foreign pressure. At the same time, DD also faces a number of difficulties arising from the primitive nature of democracy in a developing country—a topic to be discussed in the following section.

(2) Government as a dynamic leader

According to Comparative Institutional Analysis which studies the diversity and dynamics of institution, it is not easy to transform a “system” (i.e. a collection of institutions) which has been installed and already solidified (Aoki 1995a, Aoki 2001). Different types of inertia works to defend the existing system such as: *institutional complementarity* (mutual dependence of institutions in which the removal of only one institution hardly changes the system), *strategic complementarity* (the fact that individuals have incentives to play the existing game), and *path dependency* (the difficulty of deviating from the system which was chosen first). At the same time, there are also patterns in which transformation can occur even under such inertia (Figure 1).

Figure 1. Patterns of Systemic Transformation



The first is collective mutation. This occurs when a sufficiently large number of members of the society change their behavior in the absence of external coercion or directives. In the context of developing countries, this may happen when a resistance movement arises against extreme suppression or deprivation, or when a sustained increase in income changes the values and wants of the majority of the population. The second is policy launched by the government. The government is one of the insiders of a society but can become a dynamic actor (or *deus ex machina*, a god who appears suddenly and out of context to solve all confusion in an ancient Greek play) to force a change on other members of the society with its authority.

The third is foreign pressure. For better or worse, foreign individuals, firms and organizations are not bound by domestic rules and can become an agent for systemic change in that society. Finally, effective cooperation between the government and foreigners can produce a systemic change. This does not mean that the government and foreigners are always in good terms. But in cases where the government as a leader initiates a clear direction for change and the foreigner as a follower supports and assists it, the probability of systemic transformation will rise significantly.

Using this framework, it can be said that the Ethiopian Government is mobilizing its policies as a dynamic driver to establish developmentalism (i.e., to transform the rent seeking system to the value creation system), and additionally inviting the assistance of donors and international organizations for that purpose. This endeavor has the two aspects of destroying selfish motives, patronage, zero-sum games, and dependency culture associated with the old system, and building institutions, human resources, technologies, and incentive structures to support the new system. Both will require enormous social energy to break the political resistance.

The critical element of government-led systemic transformation is *leadership*. This includes both the quality and capability of the leader himself or herself, and the appropriateness of visions and principles that guide the transformation. Their importance can hardly be overstated. Even in the high performing economies of East Asia, the value creation system was not in place when they initiated the period of high growth. Before 1960, South Korea was a basket case with rampant corruption, administrative inefficiency, and high dependency on US aid for survival (World Bank 1993). Similarly, in 1959, the World Bank report on Thailand lamented the absence of public investment management and the severe shortage of trained or experienced bureaucrats (World Bank 1959). These situations were later turned around by President Park Chung-hee (in power 1961-79) in South Korea and the governments of Prime Minister Sarit (in power 1958-63) and Prime Minister Prem (in power 1980-88) in Thailand. Similar transformation was observed in Taiwan (by President Chiang Kai-shek), Singapore (by Prime Minister Lee Kuan Yew), and Malaysia (by Prime Minister Dr. Mahathir) as a government led by a strong and economically literate leader emerged.

According to the Ethiopian leaders, the neo-liberal paradigm failed to uproot the rent seeking system because it denied the role of government as a dynamic driver for systemic change. The naïve view of “market is good, government is bad” which promoted a minimalist government could not generate an agent powerful enough to launch a systemic change in a latecomer developing country, it is argued. The policy package of liberalization, privatization and open markets generated, in the implementation process, a horde of new domestic and foreign rent seekers such as NGOs, voluntary organizations, mining companies, and ODA contractors who rallied for preferences and subsidies, which collectively foiled the effort for systemic change. The so-called “Trickle Up Democracy” which tried to eliminate rent seeking from bottom up did not succeed in installing developmentalism in Africa.

There are many existing studies that confirm that economic liberalism does not necessarily cause development in low-income countries. For instance, Ishikawa (1990) presented evidence from China on the failure of liberalization policies in an economy with underdeveloped markets; Nishimura (1994) and Aoki (1995b) showed that the rapid privatization in Russia created new gigantic rents and their seekers; Khan (2008) argued that capability to direct rents to productive purposes such as investment and technology absorption, rather than to eliminate rents, was needed in a country that lacked market supporting institutions; and Ohno (2009) contended the Washington Consensus policies could take a country to lower middle income but climbing further would require a combination of more pro-active policies and private dynamism.

In Ethiopia, a strong state is set to guide other members of the society for the purpose of development. Specifically, a government led by a strong top leader is to give incentives (carrots) and disincentives (sticks) to the actors of economic growth such as farmers, workers, merchants, entrepreneurs, and foreign firms so they are forced to change behavioral patterns from rent seeking to value creation. Even donor assistance must align closely to the development strategy of the Ethiopian Government or it is not needed. Small farmers are the most important partner in political coalition, but even with them the government offers top-down guidance for productivity improvement through various “carrots” for agricultural and rural development, rather than responding to their voices in policy formulation in a bottom-up fashion. In this sense, the role of small farmers in political coalition with the incumbent government remains a passive one.

The strategy in which a strong state mobilizes incentives and disincentives to induce economic agents to create value is observed most vividly in the leather and leather product industry. The goal of this industry as set by the Ethiopian Government is to supply finished leather or finished leather products to export and domestic markets by acquiring management and technology capabilities to process what has hitherto been sold as raw or semi-finished leather. For “sticks,” the ban on raw material export and the high tax on semi-finished leather have been introduced. For “carrots,” a series of policies have been offered to the industry including (i) establishment of the Leather and Leather Product Technology Institute (LLPTI) to provide training, quality tests, and some production processes; (ii) donor assistance, foreign advisors, and twinning with a British institute for LLPTI; (iii) preferences in finance and foreign currency allocation; (iv) business matching between domestic shoe producers and European firms; and (v) monthly government-business meetings to promote the industry and remove its barriers.

What guarantees that DD will avoid the mistake of the neo-liberal paradigm—that it will not become a new playground for rent seekers? The answer must perhaps come from the quality and determination of the top leader himself or herself. From the experiences of many developing countries, we can safely say that there is no magic mechanism to ensure that a strong state will generate long-term growth; on the contrary, it will easily fall pray to patronage and collusion among politicians, bureaucrats and business people. In other words, the success of DD depends not only on the perfection of its institutional arrangements but, more

importantly, also on the integrity and effectiveness of the leader who manages it.

(3) Political support base

It is natural that a developmental party intending to win an election every five years chooses small farmers, which occupy 80% of the Ethiopian population, as its support base. In addition, small and medium size entrepreneurs in the urban areas are also counted as its future support base although their number is still small. However, at present, the ruling party has not established itself firmly in urban constituencies.

Small farmers and small and medium size entrepreneurs are regarded as the victims, not the perpetrators, of rent seeking. To release them from this harm and let them concentrate on their productive activities, the government thinks it necessary to first remove past suppressions such as exploitation and state monopoly (rather than promoting further land reform or privatization of land titles). When this is done, under the government's "Rural Strategy," a series of measures are to be implemented in the areas of technology diffusion, fertilizers, seeds, irrigation, and so on, in order to raise the productivity of small farmers and transform them into commercial producers.

In East Asia, governments with developmental orientation often formed political coalition with capitalists instead of farmers or workers (see subsection (4) below). Capitalists included domestic *zaibatsu* or *chaebols* (large business groups), large to medium size producers, banks, and trading companies. Since they were relatively small in number, the government wanting to stay in power for long could not adopt democracy from the beginning. In Ethiopia, by contrast, capitalists (which include local as well as foreign enterprises) are not considered to be in political coalition with the government. Although they are very important strategic partners of development, the government does not intend to rely on them for votes or funding. Rather, it will regard capitalists as the object of policy making, supporting their value creation while punishing their rent seeking. That is to say, the relationship between the government and capitalists will not be coalition or cohabitation but conditional cooperation at arms' length.

In Ethiopia, the urban mass has not yet formed. The intellectual class such as students and professionals are still small in number. Meanwhile, rich farmers and landlords were wiped out by the previous government. For these reasons, it is unlikely that these segments of the population will become a strong partner in political coalition in the near future. Furthermore, the Ethiopian Diaspora usually takes a negative attitude toward the present government.

(4) A comparison with East Asia

How does DD of Ethiopia compare with Authoritarian Developmentalism (AD) which was popular in East Asia in the late 20th century? Before answering this question, let us first note that developmental regimes

in East Asia have been quite diverse. The typical AD regimes included Taiwan and South Korea in the past. China after Deng Xiaoping, Singapore, and Malaysia were also very close to it. On the other hand, Indonesia and the Philippines failed to solve structural problems in politics or economics (or both) to be counted as AD despite certain achievements in income and growth. Thailand is perhaps located between these two groups. Vietnam has sustained high growth under one-party rule since the early 1990s but there is not much to be said about its policy formulation capability. Beside these, East Asia also contains very poor countries such as Laos and Cambodia and dictatorship unrelated to development such as Myanmar and North Korea. Therefore, AD to be analyzed here for the purpose of comparison with DD is an ideal type which is most closely represented by Taiwan and South Korea before their transition to democracy.

With these caveats, let us enumerate the outstanding features of East Asian AD as follows: (i) emergence in response to a crisis (domestic or regional); (ii) strong leadership (one strong leader or a strong ruling group or party); (iii) a loyal and capable technocrat group supporting strong leadership; (iv) prioritization of developmental ideology (i.e., postponement of political reform); (v) legitimacy through economic performance rather than democratic procedure; (vi) the continuation of the same regime for two to three decades and the social transformation that it generates (Watanabe 1995, Ohno and Sakurai 1997, Banno and Ohno 2009). This AD regime has the following sharp differences from the DD model which Ethiopia aspires to adopt (Figures 2 and 3).

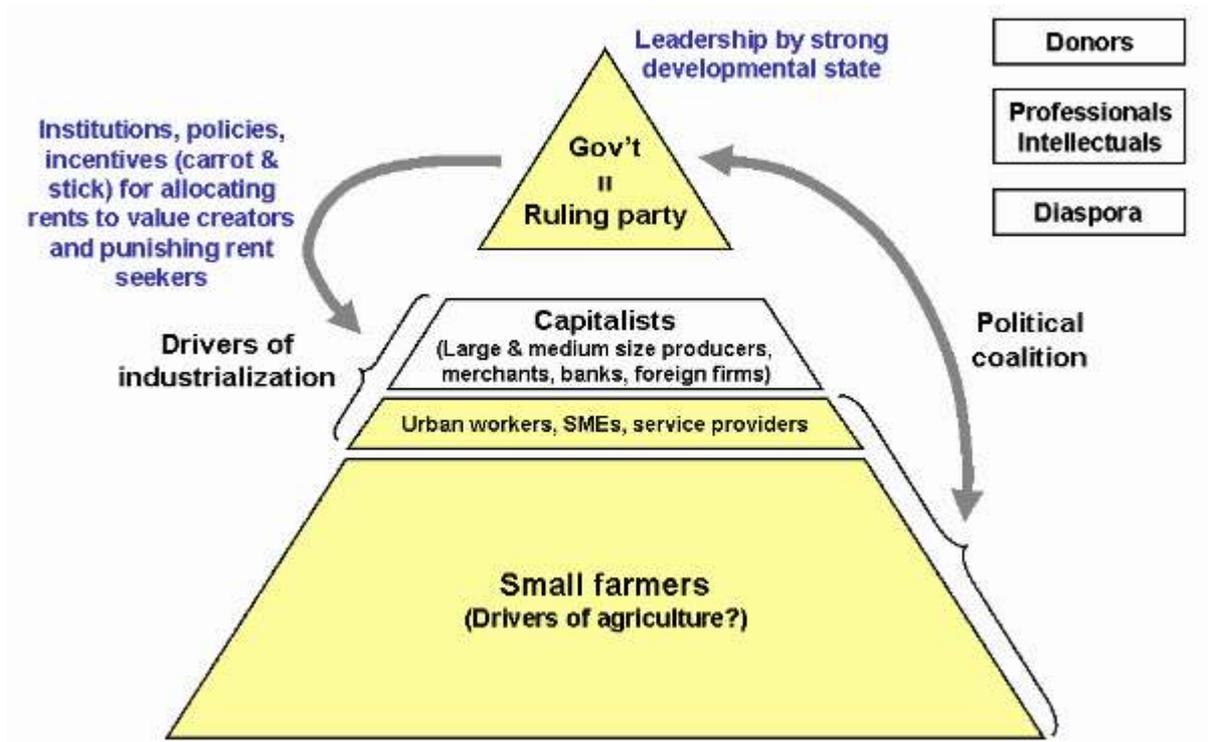
First, East Asian AD is a proven model which was adopted in many countries with remarkable achievements in income generation and structural transformation in at least some of them. In this sense, the validity of AD (under certain circumstances) is indisputable. By contrast, Ethiopian DD remains a plan to be fully implemented in the future. Its advocates ought to convince the skeptics of the feasibility of DD in the social context of latecomer developing countries.

Second, as noted above, most East Asian developmental states from the outset formed political coalition with capitalists—business groups, banks, and so on—who were the main executors of development while effectively refusing to adopt the multi-party system with free election. By contrast, the DD model aspired by Ethiopia adopts it as one of the key rules of the game at the starting point. The legitimacy of AD depended solely on its economic performance whereas that of DD will depend on both economic performance and democratic procedure. This is a vital difference between the two.

Third, in East Asian high performing economies, a dynamic transition pattern was observed in which AD, which was established through the denial of democracy, achieved positive economic results over a few decades which in turn transformed the social structure, mindsets and demands of the people. This social change led to a rise of the middle mass, who demanded democratization, to the position of voter majority which eventually toppled the AD regime. This pattern has already run its course in Taiwan and South Korea while it is in progress in a number of other countries in East Asia. Watanabe (1995) calls this phenomenon a

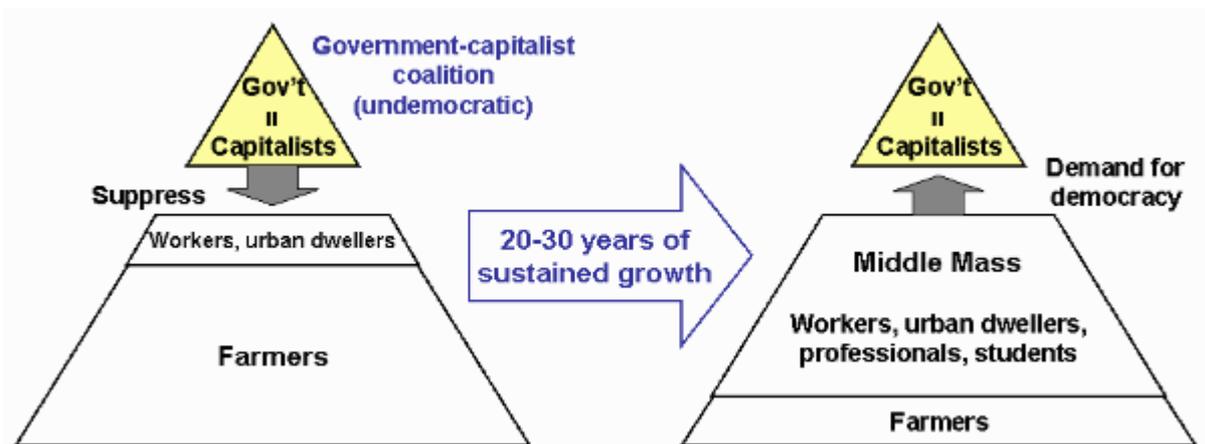
“successful dissolution” of the authoritarian regime through the very success in its development strategy. Meanwhile, what dynamic course the DD regime will trace if it is successful remains uncertain. The Ethiopian document states that Rural Democracy will eventually transform itself into Urban Democracy, but its concrete content or mechanism is unclear.

Figure 2. Democratic Developmentalism



Source: the author.

Figure 3. Dynamic Transition of East Asian Authoritarian Developmentalism



Source: the author.

3. Issues in DD

It was argued above that DD remains a model to be tested whose validity will critically depend on actual performance. Let us briefly present two issues which may arise in the implementation process of DD.

(1) Stability of political coalition

Generally speaking, poor farmers are characterized by conservatism, obstinacy, low levels of education and knowledge, and submissiveness to authority and coercion. Historically, while disgruntled farmers may resort to uprising and violence, it was rich farmers, village leaders or landlords equipped with high levels of judgment and material wealth who became constructive political partners in the early days of democracy—as in Meiji Japan in the late 19th century. Even if small farmers are elevated to the position of principal political partners, it is often difficult to mobilize them on a national scale unless they are given orders from above—as seen in Mao Tse-tung’s mass mobilization of Chinese peasants for the Great Leap Forward in the late 1950s. In this sense, small farmers should be regarded as passive followers of the government rather than mature and independent partners of national politics (this is a point which is entirely different from the validity of autonomy, participation, empowerment, and other grass-roots activities within a village). The question therefore is what motive or incentive keeps small farmers to accept such a position.

The minimum condition for small farmers to accept the government’s lead is the perception that the latter will not suppress them or drive them into despair. A greater incentive would be the receipt of official aid for the improvement of their livelihood such as famine relief, food aid, and education and health services. Better still, they will more willingly follow if the government provides productive assistance such as technology, fertilizer, seeds, irrigation and finance. And ultimately, it would be ideal if farmers raise productivity and income thanks to such productive assistance and shift to the production of commercial crops, thereby putting agriculture on a path of sustainable growth. In Ethiopia, at least some of the above “benefits” are provided to the majority of small farmers through many assistance programs. However, on the question of whether such assistance has led to productivity increase, evidence is still scarce.

It should be noted that the security of farmers’ livelihood cannot be ensured by policy alone. Droughts, pests and resulting crop failure are part of rural life. While these calamities are not caused by the government, it is uncertain whether small farmers continue to faithfully support the developmental regime when an economic downturn is severe and official rescue packages are considered insufficient.

(2) Instability of developing country politics

In developing countries, politics is often characterized by radicalism and instability even if democracy is formally in place. This occurs because the act of governing is yet to be institutionalized and authority has not been firmly established. There is no consensus regarding how democratic rules should be applied in detail. Under such circumstances, the incumbent government can exercise much discretion in protecting human rights, hosting elections, or dealing with the parliament. In return, the opposition can easily criticize and challenge any action by the government. This situation is fairly universal in developing countries. In Ethiopia, these features of developing country politics may also pose serious threats to the implementation of DD and ADLI.

As a result, politics becomes radical and extreme. True, this may partly reflect a serious schism in social structure of that country associated with ethnicity, religion, region, income gaps, or urban-rural disparity. Nevertheless, political instability often goes far beyond what these social problems can explain. Potential areas of agreement are flatly rejected, conflicts become entrenched and severe, and policies swing too much. Vendetta politics is repeated as previous leaders are prosecuted and their policies are denied and reversed by every new government. Each time the government and those who oppose it exchange emotional volleys, radicalism is amplified.

Under such circumstances, “free elections” may not be conducted so peacefully. Whether by a landslide or a slim margin, the announced victory of the ruling party may easily be challenged by the opposition. Meanwhile, those in power never intend to lose the next election and go all lengths to ensure a favorable outcome by mobilizing methods which are unsuitable in a more advanced democracy. The election becomes a complicated political game, and winning it can hardly confer full legitimacy. If the angered opposition resorts to violence and the government responds in kind, the election may even further destabilize politics.

To reduce such instability, it is necessary to install a mechanism to find areas of possible agreement in concrete policy issues between the government and the (moderate) opposition. Even if the two parties totally disagree on some issues, there may be other issues on which they may be able to come to partial or full agreement. In that case, the government should invite the opposition to jointly debate the latter, accept what can be taken in the opposition’s proposal, and build national development strategies for effective implementation. In Ethiopia, for example, fruitful discussions may be held on such topics as the revamping of assistance to small farmers, concretizing industrial action plans, training industrial human resources, and macroeconomic analysis. Establishment of a public-private sector forum to debate these issues for joint formulation of policies would greatly reduce the emotional tension and policy gaps between the two parties and may help to avoid extreme policy swings even when governments change³. The stakeholder meetings

³ Japan in the early Meiji period (late 19th century) had four policy goals of industrialization, foreign campaign, drafting of the constitution, and the establishment of parliament. Political leaders formed groups to pursue one of these goals as top priority. Since no one group dominated, each had to continuously form coalition with one or two other groups to promote its favored policy. Coalitions were flexible and reversible, the victory or defeat of one group did not last long, and ill emotion

for drafting the next PASDEP can be used for this purpose. Alternatively, other forums may be set up outside the government. Such effort will surely contribute to the steady development of democracy in Ethiopia.

4. Agricultural Development Led Industrialization: its concept and early application

Agricultural Development Led Industrialization (ADLI) is defined to be the “development strategy which aims to achieve initial industrialization through robust agricultural growth and close linkage between the agricultural and industrial sector.” This is the strategy which was formulated in the early 1990s and has been implemented in stages in Ethiopia, especially from the early 2000s. ADLI is considered to be an evolving development strategy subject to pragmatic experimentation and adjustment rather than an immutable principle. The development from SDPRP to PASDEP in the past as well as the currently proposed revisions and broadening of policy space, as discussed below, should be regarded as an evolving policy package that takes into account changing circumstances, shifting opportunities and challenges, and actual performance of individual measures. Without abandoning its core framework, alternative approaches can be incorporated and implementation details can be added.

With the coming of the Interim Government in July 1991, Ethiopia abandoned economic planning and adopted a market-oriented economic system. The national economy at that time was on the verge of collapse. The radical shift in policy orientation was necessary because of: (i) the failure of the previous socialist government to realize economic growth and improvement in the living standard; (ii) the necessity of securing finance from donors and international financial institutions; and (iii) the urgency of addressing pressing economic issues during the transition from civil war to peace. The shift in economic policy opened the door for the private sector to play an important role as opposed to the previous hostile policy environment that kept the private sector and market forces at bay and in a very rudimentary state.

During the transition from 1991 to 1995, important policies were adopted and later incorporated into key policy documents. As an expression of the policy thrust of the Interim Government, *Economic Policy for the Transitional Period* in 1992 proclaimed a shift toward market orientation, removal of most restrictions on private sector activities, and liberalization and reforms in sectoral, investment, and public enterprise laws. The policy also retained some features of the previous regime such as the state ownership of land and development centered on agriculture and rural areas. The idea of Agricultural Development Led Industrialization took its concrete shape as an overarching economic strategy between 1992 and 1994, and *An Economic Development Strategy for Ethiopia* in February 1994 introduced the term ADLI to define its strategic direction. These policy features were also manifested in the new constitution which established the

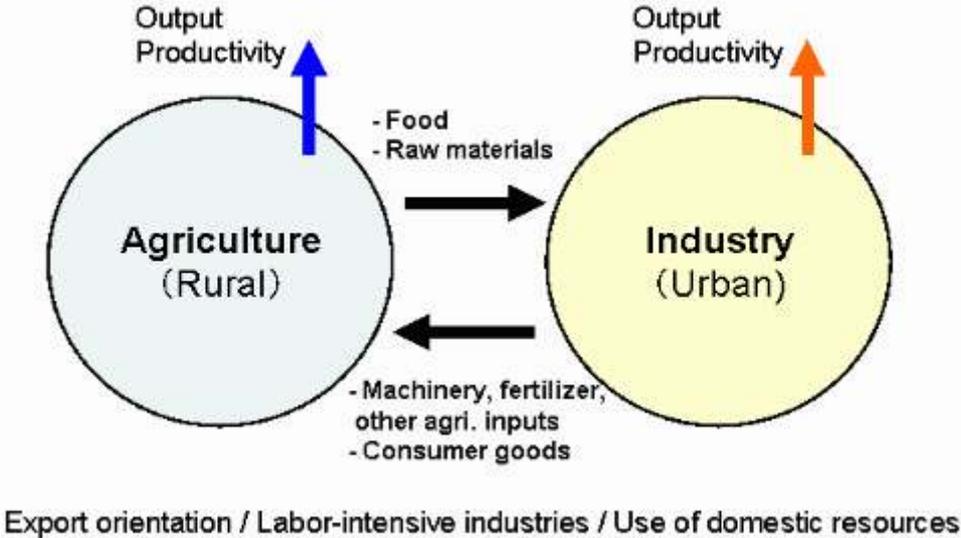
hardly remained among changing rival groups (Banno and Ohno 2009). It can be argued that the stability and consistency of development policies can better be ensured by the simultaneous pursuit of multiple goals under the flexible structure of politics such as this rather than the pursuit of a single goal under the rigidly confrontational political structure.

Federal Democratic Republic of Ethiopia in August 1995⁴.

The main motivation behind ADLI is the recognition that Ethiopia is predominantly an agrarian society in which the bulk of the population, about 86 percent, resides in rural areas earning a livelihood from land. Agriculture has long dominated the economy in terms of output, employment, and export earnings. The government emphasizes that economic development and structural transformation should be initiated through robust agricultural growth, and that peasant farmers and pastoralists should constitute the main agents of economic growth. Labor and land are the main—and abundant—factors of production in the nation and their effective use should generate rapid and sustainable development.

Initially and primarily, ADLI targeted smallholder farms, especially crop producers, so as to achieve rapid growth in agricultural production, raise income for rural households, attain national food self-sufficiency, and produce surpluses which could be marketed to the urban or industrial sectors. More specifically, the government was to provide smallholder farmers with technologies and better farming practices, improved seeds, fertilizers, irrigation, rural roads, and marketing services. A rise in agricultural output was expected to stimulate industrial production, including the production of consumer goods, thus establishing a supply link between the rural and urban sector. The industrial sector, in turn, could produce inputs to agriculture such as fertilizers and farming tools and equipment as well as consumption goods for rural households. Such dynamic linkage was supposed to ignite the first stage of industrialization before the economy moved into a higher level of development. Let us call this input-output dependency between the two sectors *Core ADLI* (Figure 4).

Figure 4. Linkages in Core ADLI



⁴ During the transition, the first phase of the structural adjustment program was also put in place. On the political front, the multi-party system was introduced to replace the dictatorial military regime of the Derg.

What is aimed here is simultaneous increases in output and productivity of both agriculture and industry under the condition that they are achieved through close input-output interdependence between the two sectors. In this domestically closed input-output interdependence, the featured industries were agro processing (including leather products) that uses domestic agricultural inputs as well as agricultural machinery, chemical fertilizers and pesticides, construction materials, and basic consumer goods such as processed food and beverages, clothes, and household goods demanded by rural population.

The *Industrial Development Strategy* (2002) additionally lists the following conditions under which industrialization must proceed:

- (i) The leading role of the private sector
- (ii) Parallel development of agriculture and industry through mutual dependence (ADLI)
- (iii) Export orientation
- (iv) Focus on labor-intensive industries
- (v) Proper roles of local and FDI enterprises
- (vi) Strong state guidance
- (vii) Mobilization of all social groups including government-capitalists, capitalists-small farmers, and labor-management

We should take special note of the requirements of export orientation and labor-intensiveness. Moreover, the second (ADLI itself) can be re-interpreted as the requirement for the maximum use of domestic resources. These three are the main requirements for establishment of the linkage between agriculture and industry. It should also be confirmed that this sectoral linkage is not a permanent one but something that can evolve into a new pattern in which industry will take the main lead once the initial stage of industrialization is realized. The *Industrial Development Strategy* clearly states that “[w]hen we say that we follow agriculture development led industrialization this does not mean that it will be so forever... if agricultural development led industrialization strategy is successfully applied it will be changed to industry led development strategy.” (Eng. p.8).

The first expression of ADLI in the form of a medium-term economic program was made in 2002 when the government incorporated the main ideas of ADLI into the poverty reduction strategy paper, or the *Sustainable Development and Poverty Reduction Program* (SDPRP) 2002/03-2004/05. This program sought to promote agricultural development and poverty reduction in rural areas by: (i) strengthening agricultural extension services; (ii) the training of extension agents in Technical Vocational Education and Training (TVET) and the training of farmers in Farmers Training Centers (FTC); (iii) water harvesting and irrigation; (iv) improved marketing opportunities; (v) restructuring peasant cooperatives; and (vi) supporting micro-finance institutions.

However, the policymakers came to realize the limitations of the first phase of implementation of ADLI through SDPRP. By the time the second phase of the program (SDPRP II), more commonly known as *A Plan for Accelerated and Sustained Development to End Poverty* (PASDEP) 2005/06-2009/10, was prepared there was sufficient recognition of the problems associated with the agricultural development strategy which was exclusively rural centered. The productivity in the agricultural sector did not show significant improvement and output remained volatile because of heavy dependency on the amount and timing of rainfall. During the 2002/03 season, the output of the crop sub-sector contracted by 16.5 percent following the decline of 3.7 percent in 2001/02. It was only in 2003/04 that growth in the agricultural sector and especially the crop sub-sector started to recover significantly. However, from a long-term perspective, the labor productivity of agriculture has been on a declining trend (World Bank, 2007). Although agriculture has shown strong performance in recent years thanks to favorable weather, this does not necessarily reflect a significant structural change in the sector such as crop diversification or productivity improvement.

PASDEP 2005/06-2009/10 made important adjustments over SDPRP 2002/03-2004/05 as it broadened the policy scope from smallholder agriculture to other sectors, especially the industry sector and the urban sector. In what may be called *Enhanced ADLI*, strong emphasis was placed on growth acceleration which was to be attained through the two main thrusts of commercialization of agriculture and private sector development (PASDEP, Eng. p.46).

5. Issues in ADLI

The greatest question concerning ADLI is whether the proposed strategy is powerful enough to propel industrialization in Ethiopia to the extent that the policy makers desire. This fundamental question is discussed in the two subsections below.

(1) Can the ADLI Strategy generate accelerated industrialization?

Following Core ADLI in Figure 4 above, if the ADLI Strategy is interpreted *strictly and narrowly* as the “strategy to achieve initial industrialization through close input-output linkage between agriculture and industry as the main engine of growth,” it is difficult to find such an example of economic take-off in East Asia. Such cases are probably also very rare in the rest of the world.

We do have historical examples in which agriculture grew relatively strongly prior to the period of full-scale industrialization and provided resources for industrialization through taxation and foreign exchange earnings (for example, silk and tea exports in late 19th century Japan, rice and sugar production in Taiwan up to the 1960s, and the rice export tax of Thailand up to the 1980s). There are also cases in which robust agro and fishery exports ameliorated the immiserization of rural communities often associated

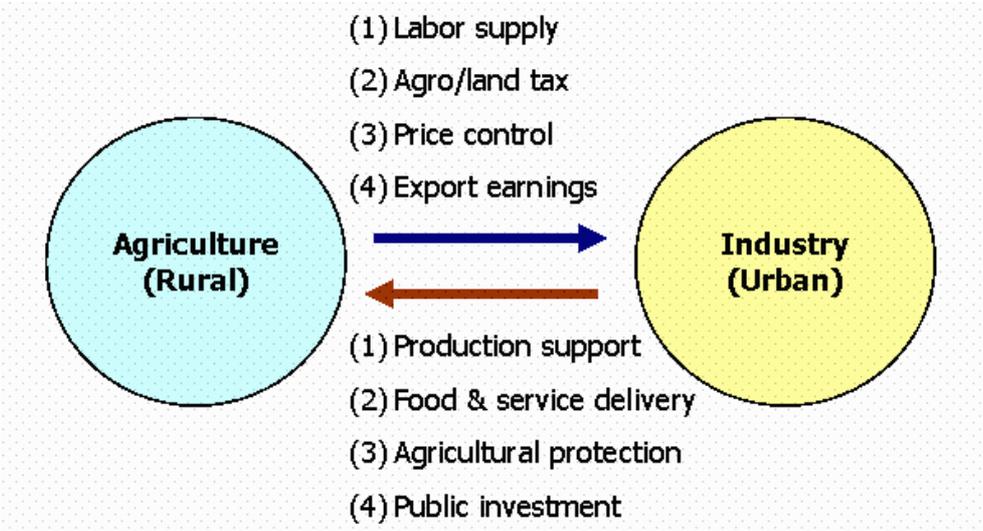
with globalization (for example, fish and shrimp exports of Southeast Asia). Even more positively, some agro and fishery products may become leading exports and raise income substantially (for example, Chilean wine and salmon). Agriculture can also serve as an income and employment buffer at the time of economic crisis (for example, Japan immediately after the WW2 defeat, and absorption of laid-off workers caused by SOE privatization in Vietnam in the early 1990s). Despite all this, a historical example in which an industry which predominantly used domestic material inputs has expanded dramatically to become the major industry of that nation and contributed greatly to the structural transformation and high income is difficult to find.

Let us be more precise. We are not arguing that industrialization based on the Core ADLI linkage is impossible. Depending on the choice of sectors and products, the strategy may work well. In fact, the Ethiopian leather industry which uses domestic animal hides and skins as inputs to produce finished leather and leather products has grown rapidly in recent years with the support of the government and donors, and we expect its growth to continue in the future. What we doubt is not the physical feasibility of Core ADLI but whether that linkage is strong enough to serve as the main engine to pull the entire economy into growth acceleration. In our opinion, it may become too difficult to find a sufficient number of economic locomotives if Ethiopia self-imposes too many restrictions on prospective industries. We would rather advise that the government examine all options in search for potential industries in its industrialization strategy.

Let us review the typical industrialization patterns of East Asia in the post WW2 era. In the early post WW2 period, especially in the 1960s and part of the 1970s, Japan and Korea adopted temporary protection and promotion of domestic “infant industries” in automobiles, electronics, machinery, metals, and chemicals without relying on FDI. For these industries, direct linkage with domestic agriculture in terms of input procurement was virtually non-existent. On the other hand, the industrialization strategy adopted by ASEAN4 (Malaysia, Thailand, Philippines, and Indonesia) since the late 1980s consisted of absorbing a large amount of FDI, mainly in electronics and machinery, to build the industrial base of each economy while trying to bolster the capability of local firms to create linkages between local firms and FDI firms, with the former becoming part and component suppliers for the latter. This was FDI-led industrialization in which, again, the role of agriculture was minuscule. To put it differently, although agro exports generated foreign exchange in Taiwan, Malaysia, Thailand, Indonesia, Vietnam, and so on, prior to industrialization, these economies did not rely very much on agriculture as the source of inputs, savings or foreign exchange once the period of full-scale industrialization began. The only visible linkage with agriculture was the provision of surplus labor from rural to urban areas. In either case of infant industry protection or FDI-led industrialization, the industry expanded greatly by active participation in the global production network spanned by trade and investment, while domestic agriculture followed declining trends in terms of both output and employment.

Under such industrialization patterns, agriculture in rural areas tends to lag behind industry in urban areas, and an income gap between the two emerges as a serious social problem. The main task of policy makers therefore is to introduce various measures to narrow this gap so that farmers will not be cut off from the fruits of economic development. For this purpose, the following channels can be mobilized: (i) market-driven labor migration from rural to urban areas; (ii) social policies providing housing, education, traffic order and environmental protection to ameliorate difficulties associated with such migration; (iii) agricultural subsidies and price controls; (iv) agricultural protection; (v) productive support for inputs, sales, finance, etc. through agricultural cooperatives, extension services, and other organizations; (vi) rural life improvement movement (discussed in detail below); (vii) fiscal transfer from central to local governments; and (viii) prioritization of public investment in rural areas. Agriculture, as a declining sector, may sometimes even strengthen its political influence. In such a case, the government often continues to offer agricultural protection--redistribution of benefits from urban industry to rural agriculture--beyond what can be justified from the principle of economic efficiency (for example, the Liberal Democratic Party government in Japan since 1955 and the support and protection of agriculture in Korea since the 1960s).

**Figure 5. Resource Transfers between Agriculture and Industry
(Other than Linkages in Core ADLI)**



Note: These transfers may be carried out directly, through fiscal mechanisms, or through the financial sector.

For landlocked countries in Africa, including Ethiopia, the industrialization strategies adopted by East Asian countries--both infant industry protection and FDI-led industrialization--are infeasible. For one thing, there are few domestic enterprises or industries that can become strong enough in the near future to compete effectively in the global market without protection. For another, it is also unthinkable that a sufficiently large amount of manufacturing FDI will come to form a solid industrial base for these countries.

The development strategy of Ethiopia, while maintaining Core ADLI at its center, should also encompass sectors and products which do not necessarily fulfill all of the requirements and links that are considered desirable. Industrialization is a hard task for any landlocked latecomer country. The policy space of Ethiopia is already circumscribed by a number of historical, natural and international constraints. There is no need to self-impose additional restrictions which further narrows the policy space for development. The framework of Core ADLI should be interpreted as the statement that agriculture and industry are given equal importance in development and the urban and rural areas are both targeted; that the development of one sector will not be pursued at the cost of the other; and that the state will continue to have strong interest in the improvement of income and livelihood of small farmers. What must be guarded with resolve is the goal and not the means to achieve that goal.

If this is agreeable, the following implementation rules may be added to the ADLI Strategy without re-drafting its key documents⁵.

(i) *The two-track approach*: close input-output relationship between agriculture and industry is ideal, but that should not be demanded for each concrete sector or product to be targeted. In principle, the agricultural development strategy and the industrialization strategy should be separable. Agricultural and rural development strategies may be formulated without direct linkage with industry, and the policy menu for industrialization can include strategies without strong agricultural impact such as FDI absorption, the use of imported inputs for manufacturing, and the creation of industrial zones and clusters in the vicinity of Addis Ababa.

(ii) *Flexible application of policy requirements*: as noted above, the implementation of ADLI calls for export orientation, maximum use of domestic resources, and labor-intensiveness. These conditions should be applied flexibly and case by case. It is highly desirable to meet all these conditions, but the search for target industries may include sectors and products which only partially satisfy them.

(iii) *Resource mobilization based on selectivity and concentration*: considering the limited financial and human resources, the strategy to simultaneously improve a large number of sectors and products should be avoided. While the net must be cast widely to catch as many good fish as possible, assistance should be given to narrowly focused target areas selected from a broad menu. The selection of targets must be backed by appropriate information and analysis. For selected industries, sufficient financial and human resources should be provided, international cooperation should be mobilized, and management and technical assistance should be made available for a reasonable amount of time. The leather industry is already promoted in this way, but the approach should be applied to other sectors.

⁵ These recommendations were made by the GRIPS researchers at the first JICA-GRIPS policy dialogue with the Ethiopian Government organized in Addis Ababa on June 2, 2009. However, as reported in section 6 below, it was discovered that the movement toward broadening the policy scope for industrialization was already underway in the Ethiopian Government and the donor community, and that its general direction was roughly in line with our proposal.

(2) Feasibility of productivity breakthrough by small farmers

Whether smallholder subsistence farmers, who are the dominant majority as well as the chosen coalition partner of the developmental state, can be commercialized and improve productivity and income is the most fundamental question to both DD and ADLI. From the experiences of East Asia, we must conclude that such a strategy is extremely difficult to realize in the short run.

As seen in Section 3, to secure political support of small farmers what is needed is to engender a perception that the government is a positive factor--or at least not a negative one--in their livelihood. But DD and ADLI can not succeed with that alone. The grand objective of DD and ADLI is to transform the principle of the national economy from a zero-sum game to a sustained increase of the pie (GDP) for which the long-term stability of the developmental state is only the means. If the productivity of agriculture does not improve, the state will eventually face fiscal crisis and aid dependency. If developmentalism only results in the buying of rural votes through redistribution of benefits, it must be considered a failure.

The first question we must ask, therefore, is whether it is possible at all for small farmers in Ethiopia to become commercialized and improve productivity significantly. If that is feasible, then we must ask the details as to what should be targeted in terms of players, regions, crops, technologies and markets, what roadmaps should be designed, and what policies and institutions are needed. The Ethiopian policy document states that agriculture should be the growth engine in the early stage of development, and that poor farmers must be supported to become independent commercialized farmers. But is this really possible within the time frame envisaged by the Ethiopian leaders? We must scrutinize and debate, with concrete details, the appropriateness and performance of the existing policy package that includes PASDEP, master plans, and donor assistance programs.

In Northern and Central Highlands where the majority of the Ethiopians reside, small farmers are scattered across vast mountainous terrains with often very difficult road access. They live on what they produce with little external sale or purchase. The supply of electricity, drinking water, and hygiene is absent or severely limited. Agriculture basically depends on the whims of rainfall, the use of fertilizer is inadequate, and the arable plot of each family is very small which is being further subdivided under population pressure. In Southeastern Dry Land, pastoralists lead nomadic lives. The productivity breakthrough from such initial conditions is a very long-term endeavor.

For these reasons, it becomes necessary to review the practicability of maintaining the development strategy that centers on the transformation of small farmers into independent commercialized farmers with expected productivity improvement. The present Ethiopian agricultural strategy features both smallholder agriculture as future suppliers of commercialized crops and industrial materials as well as capitalist

agriculture with sufficient technology and large investments (for example, flowers)⁶. For DD and ADLI, the success of the former is particularly important. But that may be too difficult to realize in a relatively short period as the policy makers hope. Even if productivity gains may be made, linking small farmers immediately and directly to urban or international markets or the industrial sector may be unrealistic. It may be too demanding to ask them to strictly abide by the stable quality, high hygienic standards, mass production, and on-time delivery required by urban or global industries.

The problem of small farmers is not only a supply-side problem concerning agricultural production but also a quality-of-life problem that must be solved through poverty reduction through empowerment. The policy package for small farmers must therefore cover a wide range of measures including: (i) support for purchases, sales, finance, commodity exchanges, etc. for commercialization of agriculture; (ii) supply-side assistance in technology, irrigation, seeds, fertilizer, farming practices, etc; (iii) rural infrastructure such as roads and electricity; (iv) rural industrialization and rural service promotion for generating non-farm income and employment; (v) the “rural life improvement movement” targeted to the daily life of farmers; (vi) service delivery in education, health, potable water, etc. for achieving MDGs; and (vii) provision of food security and social safety nets in times of drought and famine.

A large number of assistance programs are already available to Ethiopian farmers and rural communities. However, the rural life improvement movement ((v) above) is not introduced yet. This overlaps partly with globally common MDGs-related support ((vi) above) but is distinct from it as it emphasizes the role of mundane activities at the grass-root level. Mizuno (2008) warns that the mainstream strategy for rural development is inclined too much toward supply-side agricultural support through improved technology and inputs while underestimating the importance of multi-faceted improvements of rural life quality such as meals, clothing, housing, hygiene, social relations, and the like. Rural development from a very low level must embrace both the productive aspect and the life quality aspect as the two indispensable wheels of development. The works of extension experts must be supplemented by those of rural life improvement experts. Mizuno cites the experience of Japan immediately after the WW2 as one of the most successful cases of rural life improvement movement.

After the war defeat, Japan was occupied by the Allied Forces. In 1948, under the direction of the General Head Quarters of the Allied Forces, the Ministry of Agriculture launched the “Life Improvement and Dissemination Movement.” In parallel with the policy of the central government, many local governments such as Yamaguchi Prefecture and Kagoshima Prefecture introduced similar programs with great enthusiasm. This movement, though originally started by top-down order from above, encouraged grass-root activities with strong participation at the village level. Life improvement dissemination staff

⁶ *An Economic Development Strategy for Ethiopia* of 1994, drafted in the formation period of ADLI, clearly distinguished subsistence farming and capitalist commercial agriculture, and discussed separate supporting measures for each. SDPRP 2002/03 mainly focussed on the former but PASDEP 2005/06 resurrected the interest in both sectors.

consisting of rural women were organized. They took the lead in conducting a broad range of activities to improve cooking, nutrition and meals; clothing, bedding and footwear; cleaning, washing, water carrying, and other domestic chores; child raising and training; wedding, funeral and other ceremonies; public morals; and elimination of superstition and feudal habits. Regular meetings were held with the participation of all village households where issues were debated and consensus were formed. Life improvement dissemination staff were sent to Tokyo and other cities for training. Universities and research institutions offered technology and information for this movement. Government officials and village staff also try to solve problems arising from complex social relations in rural communities such as the increase of absentees in planting and harvesting seasons, the feudal concept of family, and the lack of cooperation from husbands and mothers-in-law. In addition, during the 1950s and 60s, similar programs, such as the “New Life Movement” to improve both production and life quality aspects, the “Life without Mosquitoes and Flies Movement” initiated by the Ministry of Welfare, were implemented nationwide with close cooperation between government officials and village staff (Ikeno, 2008).

In view of these considerations, we propose the following restructuring of the agriculture and rural development strategy. Multiple goals and corresponding measures should be re-arranged more strategically instead of listing a large number of supply-side measures for simultaneous implementation.

(i) There should be two pillars consisting of *supply-side measures* regarding productivity and commercialization and *quality-of-life measures* regarding MDGs and improvements in daily life. For the latter, the concrete content of “rural life improvement movement” explained above may serve as a useful reference.

(ii) Concerning the time dimension, there is no need to constrain the scope of each strategy to the PASDEP cycle of five years. There should be multiple roadmaps appropriate for individual goals. The challenging task of enhancing productivity, commercialization, and input-output linkage with industry should be pursued in realistic steps with a long-term perspective. Other goals, such as building rural infrastructure and promoting rural industrialization, which may also take long and are subjected to financial and technical constraints, may have different time scopes. For quality-of-life improvements, some measures may be front-loaded and the deadline of MDGs (the year 2015) must be also taken into account.

(iii) Regarding the strategy of commercializing and improving the productivity of smallholder agriculture, for which immediate linkage with the industry sector and urban and global markets is difficult, the policy menu should be broadened to include “closer” targets. For example, the following directions should be seriously considered: (i) expansion and diversification of agro and livestock products for local markets (nearby cities, towns, and villages); (ii) promotion of tourism; (iii) production of local specialties (raw or processed agro and livestock products or handicrafts unique to

the locality); (iv) introduction of the “one-village-one-product” approach or the “michi-no-eki” (roadside stores to sell local products and serve local food) approach; and (v) improvement of technology, management, and the use of agricultural inputs through the network of extension experts which was strongly enhanced in recent years.

6. The broadening of policy scope for industrialization

Our argument that Ethiopia’s industrialization strategy should be more diverse and flexible, as presented in section 5-(1) above, has in fact been already studied by the Ethiopian Government and also recommended by the World Bank and a number of American economists. If this policy direction is realized, that will mean an even greater revision of industrialization strategy than Enhanced ADLI adopted in 2005/06 when the current PASDEP was drafted. Such a policy shift should certainly be written into the next PASDEP.

(1) The directional change of development policy

As noted above, ADLI, which is the basic framework for Ethiopia’s development strategy, has been revised and expanded in steps. The SDPRP, implemented from 2002/03, provided production support measures for small farmers as Core ADLI dictated. Starting from 2005/06, PASDEP recognized the limits of policies that targeted small farmers only and therefore expanded the policy space from agriculture and export-oriented industries to private sector development and commercialization of agriculture as well. *The Industrial Development Strategy* in 2002 selected food processing, leather, and garment as the priority sectors (it also selected construction and micro and small enterprises as targeted areas).

More recently, a further enlargement of the scope of development policy is being discussed. Specifically, there is an emerging interest in promoting import substitution industries such as construction materials (steel, cement, glass, and so on), metal processing and engineering, chemicals, and pharmaceuticals. This movement is recognizable in discussions within the Government as well as among development partners. The Ethiopian Government regards this as a “shift in emphasis within the same fundamental policy” whereas the World Bank calls this a directional change in development policy. At this moment, however, this movement points only to a general direction without concrete principles, roadmaps, or action plans. Specifying these will be the task of the drafting and implementation processes of the next PASDEP.

One minister of the Ethiopian Government stated that this “shift in emphasis” (the introduction of import substitution policy) had been discussed within the Government for about two years. Others say that this change was suggested by Prof. Joseph Stiglitz of Columbia University who often advises Prime Minister Meles, Prof. Dani Rodrik of Harvard University who visited Ethiopia at the invitation of the World Bank, or Dr. Justin Lin the chief economist of the World Bank. Still others speculate that this policy shift was forced by the need to reduce imports under the severe foreign exchange shortage that Ethiopia has been

facing since 2008. The truth is hard to pinpoint, but we can for the moment presume that the policy revision previously contemplated by the Government has become more visible with the receipt of external policy advice along the same line. At any rate, it is remarkable that import substitution strategy, whose validity used to be summarily denied by Washington institutions, is now strongly recommended to Ethiopia by the World Bank and American economists⁷.

Let us look at the section entitled “Refining the industrial policy strategy” in Rodrik’s note prepared for his visit to Ethiopia at the request of the World Bank in December 2008. It argues that, while Ethiopia’s first-generation industrial policies had borne some fruit, especially in the floriculture sector, there is a need to move towards second-generation industrial policies that aim at both home market and exports. Simply put, the existing industrial policy of Ethiopia consists of a short list of priority sectors which receive a variety of incentives. According to Rodrik, this narrow approach to industrialization has two limits:

One is that many potentially successful sectors are almost certainly not on the list. There are potentially hundreds of different products in which Ethiopia can be competitive; yet it is hard to think of all of them *ex ante*. The most successful sector to date, floriculture, is a case in point. This is a sector that was brought to the government’s attention—and made the priority list—only after private entrepreneurs had done the initial discovery and had come to the government for assistance. It is easy to imagine that there are many such industries that government policy fails to target simply because they are not in its list. At present, there is no mechanism in place to actively solicit “new” investment projects that may lie outside the priority list.

Second, the assistance needed by investors may be highly specific to the needs of the project in a way that makes it impossible to specify *ex ante*. Cheap land and holidays on profits taxes may suit some investors just fine; but others may have different needs. One firm may need relief on payroll taxes, another from tariffs on inputs, and a third may want the relaxation of some regulation or legislation. In at least one instance, the prime minister has helped a large pioneer investor by agreeing to change a regulation (on qualification for DBE loans). But problems such as these are common at all levels, and it is unrealistic to expect that the PM himself can attend to them all. There is currently no mechanism in place to respond to such needs systematically. (Rodrik, 2008, pp.5-6)

For these reasons, Rodrik proposes the following six revisions to Ethiopian industrialization strategy: (i) broadening policy scope to include more sectors; (ii) supporting “new” activities for Ethiopia rather than exports; (iii) recognition that mistakes are both unavoidable and necessary; (iv) broadening the list of policy instruments; (v) giving incentives and subsidies to “pioneers” only and not emulators; and (vi) enhancement of lines of communication and coordination with the private sector. Finally, he adds that

⁷ The World Bank Executive Board approved the Protection of Basic Services (PBS) II, a budget support type program, for Ethiopia in May 2009 with the condition that the “directional change” mentioned above be monitored for implementation. The PBS I (2006-08), the precursor to this program, was initiated by re-organizing existing general budget support. PBS II will strengthen the delivery of basic services of local governments through budget support in the three year period of 2009-11. IDA will provide a total of \$540 million (\$309.78 million of grants and \$230.22 million of loans) and 12 other donors will supplement it with an additional \$737 million.

success depends on the change in mindset in which industrial policy is regarded as a process of collaboration and problem-solving with the private sector rather than increasing the number of incentives or the volume of exports.

On the other hand, high level policy authorities of the Ethiopian Government at the GRIPS-JICA policy dialogue explained that the expansion of policy scope from exports to import substitution was in tandem with the accumulation of policy skill and knowledge on the part of the Government. Ethiopia overcame a series of political and diplomatic problems and began to concentrate on the formulation of development policies around 2002/03. At that time, the Government did not have sufficient knowledge or resources to conduct full-fledged industrial policies. Under such circumstances, the authorities decided to direct limited policy capabilities to supporting three export-oriented industries by providing incentives and monitoring their monthly export performance. Admittedly, this is a very narrow definition of industrial policy. The policy intention was to concentrate on the building of a few export industries as the leading sectors which would have positive economic impact on other sectors as well as allow the Government to study the knowhow of private sector assistance. While the competitiveness of selected exports still falls short of the expectation of the Government, many things have been achieved. In particular, the export growth of fresh flowers and leather products has been remarkable although from a very low base.

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