

Ethiopia's democratic

developmentalism

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This speech was made at the launch of the Africa Task Force of the Initiative for Policy Dialogue (IPD), held at the Brooks World Poverty Institute, Manchester University, 3–4 August 2006. The IPD was founded by Nobel laureate economist Joseph Stiglitz in July 2000 to help developing countries explore policy alternatives, and enable wider civic participation in economic policy-making. IPD is now a global network of more than 200 leading economists, political scientists, and practitioners from the North and South with diverse backgrounds and views.

I am glad to be here among you, most distinguished economists, for the first meeting of the Task Force on Africa to evaluate policy options especially for accelerating growth in Africa. It is my hope and expectation that the task force will look at policy options not only within the current neo-liberal orthodoxy, but also outside it. Indeed, the sole justification for my presence in a meeting of renowned academics would be that we in Ethiopia have embarked on a reform programme that is based, not on the neo-liberal paradigm, but on an alternative: the establishment of a developmental state. I would like to believe that I am here because I represent a specimen that is of interest to you as researchers and practitioners.

Our economic reform programme, which was initiated in conjunction with the IMF and World Bank, started in the early 1990s with a focus on changing the inherited command economy and establishing a market economy. This objective was achieved by the mid-'90s. While I cannot say that we had an alternative to the neo-liberal reforms that the IMF and World Bank wanted us to introduce, we were never comfortable with it from the very beginning. Our initial reaction was, in effect, to conduct a rearguard battle of delaying or preventing the introduction of reforms that



would reduce the state to the proverbial night watchman, without presenting an adequately articulated alternative.

By the late '90s, the ruling party's thinking was evolving towards the elaboration of an alternative development paradigm that we have called "democratic developmentalism". This was a rather slow and painful process. Painful because the full articulation of the paradigm, with all its policy implications, was a key cause of the most serious split in the history of the ruling party, which took place in 2000–2001.

While our policy has therefore been evolving in the direction of democratic developmentalism for about a decade, its full articulation in the Ethiopian context is barely six or seven years old. I would argue that it is only in the past three years that we have begun to see the results of the shift.

We have had three years of fast economic growth, averaging a little over 9 percent per year. This is not only significantly higher than what we had achieved in the previous decade, but it is also the first time in a decade and half that we have had three consecutive years of fast growth. Our exports



have been growing at over 25 percent per year. Our plans are to sustain and enhance such growth rates over the next five years with the view to doubling our GDP in eight years. Our economic performance appears to have entered a new trajectory of fast export-led growth, as would be expected from a successful implementation of a developmentalist paradigm. I would however be the first to admit that it is too soon for us to declare success. Indeed, as American members of the task force would say, the jury is still out.

It would be presumptuous for me to try and set out the contents of developmentalism to a task force composed of academics and practitioners who have articulated the theoretical foundations of the paradigm and analysed its East Asian variant in such great detail. I will therefore try to briefly outline what we are doing to implement the developmentalist paradigm in Ethiopia.

The key task is to transform our political economy from one of pervasive rent-seeking to one that is conducive to value creation, in the context of establishing an effective and democratic developmental state. This in turn is predicated on building the constituency of a developmental state and developing appropriate institutions and policy instruments. I will try to outline our efforts in this regard, taking agriculture and the leather industry in our country as examples.

DEVELOPING AGRICULTURE

Agriculture is vital for kick-starting and sustaining export-led fast economic growth and transformation, as the developmental experience in East Asia has shown. It is also the case that developmental states in East Asia have had to base themselves on the explicit or tacit support of the peasantry. It is therefore no wonder that agriculture has been the centre of our efforts to implement a developmentalist paradigm in Ethiopia. Land had been nationalised by the previous regime and we had to decide early on what to do with the land ownership system as we dismantled the command economy and established a market-oriented economy.

The advice we got from practically everyone was that we should privatise land and liberalise the market in agricultural products. We were convinced that liberalisation of the market

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in agricultural products had to be part of the solution, but not that privatisation of land was the way forward. Instead, we opted to ensure tenure security for the peasantry and introduce a long-term land lease system for commercial farmers. There are a number of reasons for the choice we made.

In the first instance, we feel that land privatisation would divert the limited capital in the country from productive investment to that of acquiring land. Given the factor endowment in the country, it would not make sense to encourage businessmen to buy up land, displace the peasantry and bring about agricultural transformation through mechanisation and other labour-augmenting technologies. Nor would it make sense to encourage businessmen to buy up land and introduce a share-cropping system – the quintessential rent-collecting system.

If such a system became entrenched in agriculture, not only would there be very little likelihood of fast growth and agricultural transformation, but the rent-seeking political economy would be very difficult to dislodge, as the peasants would be beholden to the rent-seeking landowners and could not thus constitute the social basis for a developmental state. The decision we took in terms of the land ownership system is therefore one of the critical decisions that made it possible for us to try to implement an alternative to the neo-liberal paradigm.

Our agricultural development strategy is predicated on commercialisation of small-scale agriculture and increasing agricultural development through the utilisation of land-augmenting technologies. To start with, we have promoted primary education, particularly in the rural areas. Over the past decade and a half, primary school attendance countrywide has thus increased from less than 20 percent, in terms of gross enrolment ratio, to over 80 percent now. Well over 85 percent of the primary schools we have built have been built in the rural areas. This will substantially upgrade the human resource base of agriculture in the coming years. At the same time, we established several junior agricultural colleges and are now reaching our target of producing 60 000 trained extension agents.

Emphasis has also been placed on building rural infrastructure, particularly rural roads to facilitate the commercialisation of agriculture. Side by side, we have been trying to establish an efficient marketing system with marketing co-operatives at the base and agro-processing and agricultural export companies at the apex. We have begun to see a shift towards higher value and exportable crops over the past three years.

Our strategy has thus been based on developing

- a land ownership system that curtails rent-seeking behaviour and promotes value creation
- an educational and agricultural extension system to promote agricultural technological change
- a marketing system designed to promote the commercialisation of small-scale agriculture and export-led agricultural development.



While the results so far have been very encouraging, this is still a work in progress. Increases in agricultural productivity have been limited to the surplus-producing regions and to a shift in cropping patterns. The drought-prone areas have yet to overcome the structural problems that have curtailed growth there. The marketing infrastructure we have is still beset with inefficiencies and continues to evolve.

THE STATE AND THE PRIVATE SECTOR

One of the distinguishing characteristics of a developmental state is its relations with the private sector. While the developmental state has to establish a very close relationship with the private sector engaged in productive activities, it has to curtail the activities of those engaged in rent-seeking activities and, hence, has to have adequate autonomy from both sections of the private sector to provide directive support to the first and restrict and ultimately overcome the second.

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The partnership we have established in the leather industry, which is almost exclusively domestic in its composition, is a good example of the nature of our relationship with the value-creating private sector.

The leather industry in our country is hampered by an inadequate supply of good-quality raw skins and hides. It has focused on producing and exporting semi-processed leather because the global trading environment militates against the export of finished leather and leather products. The skill levels of the labour force and management is quite low. Our strategy for the leather sector has been to produce finished leather and leather products for both export and the domestic market, and to provide comprehensive support to the private sector to do so. We have banned the export of raw hides and skins.

As part of our work to commercialise small-scale farming, we are trying to improve the quality of raw hides and skins and their marketing system. We have established a leather industry support institute to provide training to operators at all levels of the industry and to extend laboratory testing. Additionally, the institute has a first-rate tanning plant that can provide leather finishing and garmenting services to the industry. Experienced foreign consultants have been hired to help run the institute and it is now in the process of twinning with a centre of

excellence in the UK. We have thus created an institution to build up the technological capability of the industry.

WHEN THE SHOE FITS

As an entry point for increasing the value added in the industry, we have been actively promoting footwear products. We have sought out European shoe marketing firms and linked them up with local companies. These firms have helped our shoe factories to improve their quality and productivity and have opened up markets. The cost of this has been the very low prices – around \$10 per pair – that they pay to our companies. We consider this an investment cost to upgrade the marketing and production capabilities of our companies.

As the shoe industry has begun to pick up momentum, we have offered the leather tanning industry a comprehensive package of support to upgrade their facilities to produce finished leather for the shoe sector. We have offered free training at the leather institute for their personnel, offered to help them procure foreign expertise to help manage the transition and to share the cost of doing so with them. We have also provided loan facilities at low interest rates and export credit guarantees. On the other hand, we have announced our intention to begin to tax the export of semi-processed leather over the next few years, to discourage those who do not wish to upgrade and encourage those who do.

The government has established a forum for dialogue through a monthly meeting of government representatives and leather industry operators. We bring a lot to the table: commitment to improve the infrastructure to enable them to integrate successfully with the global economy, state-owned banks to provide comprehensive financing support, and the leather institute to beef up their technological capability. We also bring our taxing powers as the final card. We have tried to combine all these instruments to support the industry to add value and become competitive. The results so far have been encouraging. The private sector has been responding very positively; our monthly meetings have been very businesslike and productive. Indeed, I dare say the relationship has become a model of the relationship between our developmental state and the private sector.

CHALLENGES FOR THE TRANSITION

Allow me now to briefly touch on the three major challenges we have faced in our endeavours to implement a developmentalist paradigm in Ethiopia.

The first and most crucial challenge has been in the realm of ideas. I am sure those of you who have gone to great lengths to articulate the concepts of a developmental state, and an alternative development paradigm based on it, will be surprised to note that this is indeed the case. Let me briefly explain. First of all, it takes time and effort to study your





work and to convince the leadership of a ruling party that this is indeed a viable proposition. In our case, it not only took time but caused a split in our party. Taking your work as a base and coming up with a workable proposition is not as easy as you might imagine.

This has become even more complex in our case, as we have tried to establish, not an authoritarian developmental state, but a democratic one. The fact that our party has traditionally had very strong ties with the Ethiopian peasantry gave us a bit of a head start. But an atomised peasantry has traditionally been the social base of autocracy rather than democracy, and we needed to transform our political base in the peasantry to sustain democratic change as well as economic transformation. Commercialisation of small-scale agriculture was the only path open to us to firmly ground democracy in our country. That takes time and poses its own challenges. We also needed to articulate a democratic vision based on the developmentalist paradigm, which of necessity had to be different from the neo-liberal package on offer.

Building a democratic developmentalist paradigm also requires convincing a solid and stable majority of the population that this is indeed the path to salvation. We have for nearly six years been engaged in massive debates and discussions to do so in Ethiopia. But that alone has proved to be inadequate. The developmentalist paradigm has to begin to deliver results before the social consensus supporting it can be firmly established. It is only in the past three years that our paradigm has begun to show results.

The debate within Ethiopian society has not been carried out in a global ideological vacuum. To the extent that foreign actors have affected the debate, they have done so largely on the side of the neo-liberal camp – which in essence means the rent-seeking coalition in the country. The impact of these forces has been all the more significant because of the global dominance of their views, because of their control of the aid and loan resources that we need for our development, and because of the inevitable shortcomings and teething problems of a fledgling developmentalist paradigm, upon which they have capitalised. I believe we have made significant inroads towards establishing a stable and solid majority for the developmentalist paradigm in spite of the challenges, but I have to admit that we are far from out of the woods yet.

The second challenge has to do with developing the necessary institutions and policy instruments for a developmentalist

paradigm. It is true that these are very well known, as they have been articulated at great length by many of you in the task force. But these have to be adapted to the specific circumstances of each country. More importantly, building the institutions and sharpening the policy instruments can only be done in the process of implementing the paradigm, which means that it takes time and that it is sometimes difficult to avoid very costly mistakes.

The last challenge we face has to do with the availability of resources, particularly the availability of foreign savings that our export sector is as yet unable to generate. It is no surprise to me that our experiment with an alternative development paradigm has not been rewarded with adequate foreign assistance. In per capita terms, we get less than half of the average aid that other African countries get. In addition, much of the aid we get comes with massive pressure to change our development strategy, and in a manner that makes it very difficult to utilise it effectively for our purpose.

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GROUNDS FOR OPTIMISM

In spite of these challenges, I believe the developmentalist paradigm is beginning to gain political traction. It is no longer an idea that academics toss around. It is an idea that we in Ethiopia are trying to implement. As the neo-liberal paradigm continues to show very little prospect in Africa, more and more people are searching for alternatives. During a meeting of the Progressive Governance Network in South Africa, the issue of developmental states in Africa was raised and discussed at some length. That was the first time I have heard the issue discussed in polite company, which included the presidents of South Africa and Brazil, the prime ministers of the UK and Canada, and also the director-general of the WTO and the trade commissioner of the EU. I dare say there is still a lot of hope for the developmental state in Africa.

Let me conclude by asking how best the task force can help in the search for alternative policies to accelerate growth in Africa. I would like to suggest that the task force include the developmentalist paradigm as one of the options in its research agenda. I would argue that, in view of the fact that a lot of research on modifying and improving the performance of the neo-liberal paradigm has been carried out by other well-endowed researchers, the task force ought to concentrate much of its research on articulating a developmentalist alternative for Africa. ☞

