Developmental State and Industrial Policy of Ethiopia

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Research purpose

- Is the Developmental State model of Korea still effective for developing countries?

- How has the Developmental State model been applied to the Industrial policy of Ethiopia?
  - Leather industry supporting policies

- What is the result of the application?
Contents

- Developmental state model of Korea
- The Application of Developmental state model of Korea to Ethiopia
- The Result of the Application
- Conclusion
1. Developmental state model of Korea

Definition

- The State whose Political Leader considers the economic development as the first priority and the basis of political legitimacy

- The State who has the appropriate institutional structure and embedded autonomy

- and performs the developmental role by intimately cooperating with private sector.
1. Developmental state model of Korea

Pros vs. Cons

**pros**
- Historical examples of qualified countries
- Reserved autonomy for developing countries
- For Attribute of developing countries
- For Attribute of developmental state model

**Cons**
- Lack of suitable properties for developmental state
- Changed trade regimes
- Changed economic situation
1. Developmental state model of Korea

(1) Political foundation

- See “Economic development” as Top Priority & Ground for Political Legitimacy
- Concentrate power on the executive branch of gov. for Autonomy of bureaucrats to regulate Private Sector
- Grant comprehensive authority and autonomy to Pilot agency
- Show strong interest & support for economic development to restrict the Rent-seeking behavior of bureaucrats
1. Developmental state model of Korea

(2) Institutions

- **Pilot Agency: Economic Planning Board**
  - Comprehensive authorities and functions
  - Minister of EPB as the deputy prime Minister
  - Free from any interested group

- **Embedded institution: Export Promotion Conference**
  - Gov. & Private sector closely share information

- **Autonomy institution: Performance-based incentives**
  - + control of foreign exchange & operation of SOE for key intermediates
1. Developmental state model of Korea

(3) Policy instruments

- Priority sector designation
- Entry restriction
- Policy loans
- Tax exemption
- Protective trade policy
- Export promotion policy
- Five-year plan for economic development
2. The Application of DSM of Korea to Ethiopia

Based on field interview
2. The Application of DSM of Korea to Ethiopia

Policy Transfer Model (Dolowitz & marsh, 2000)

By whom?
Prime Minister Meles Zenawi

What?
Overall goal, Contents Tools of Policy

How?
Copy Model

Where?
Academic research

Why?
Voluntary

Industrial Development Strategy, His Master’s thesis

EPRDF’s documents
Economic development plan (PASDEP, GTP)
Similar Institutes & policy tools for export promotion

Writings & Personal His. Of Meles

Autonomy of Ethiopian gov. from Aid institutes
### Application points of Ethiopia

| Political foundation | • Prime minister **Meles’** strong leadership for economic dev.  
|                      | • Restriction of rent-seeking by explicit interest by Meles |
| Institution          | • **Coordinating institution**: National Export Steering Committee & Monthly Export Promotion Counsel  
|                      | • **Embedded institution**: National Export Development Committee |
| Policy instrument    | • Priority sector designation (leather industry)  
|                      | • Policy loan through state-owned bank  
|                      | • Tax exemption for exporting companies  
|                      | • Various export promotion policy  
|                      |   - ECBP, Made in Ethiopia, Benchmarking project  
|                      | • Five-year plan for economic development  
|                      |   - PASDEP, GTP, Master plan for leather industry |
## 2. The Application of DSM of Korea to Ethiopia

<table>
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<tr>
<th>Policy</th>
<th>Goal</th>
<th>Major Practices</th>
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| 1      | Incentive schemes to Encourage exports | Increase the amount of export | Set the export target  
Provide various incentives:  
- tax exemption, credit guarantee, infra |
| 2      | Business support structure | Upgrade the capacities of stakeholders in leather industry | Establish Leather Industry Development Institute  
Provide various trainings & service:  
- Bachelor courses, training module for micro and small producer, quality test |
| 3      | Engineering Capacity Building Program | Overall value chain upgrading | Support private sector development  
- investment promotion & matchmaking services to attract foreign buyers, quality management |
| 4      | Made in Ethiopia | Produce Ethiopia brand leather goods for high-end luxury fashion market | Create a new brand-*Taytu*  
-showcased at Premiere Classe, Paris  
Form a cooperative including local & firms |
| 5      | Firm Level Benchmarking | Develop best practices for sector | Select 8 tanneries & 8 footwear companies  
Provide firm level support  
- ERP system, training on design & ISO, product diversification, business process & marketing |
| 6      | Support to MSME clusters | Support informal sector | Build G+4 and sell premises for MSME  
Provide various supports for clusters  
- establishing supporting organization, training for 75 enterprise owners & workers, assisting MFI |
2. The Application of DSM of Korea to Ethiopia

Time Line

- UNIDO support for MSMEs
- Firm level benchmarking project: The technical assistance project for the up-grading of the Ethiopian leather and leather products industry
- UNIDO support for Made in Ethiopia
- Made in Ethiopia
- Taytu
- Taytu showcased in Paris
- Engineering Capacity Building Program
- LIPTI established
- LIPTI project for LIPTI
- Cooperation with CLRI & FDDI LIDI
- Leather Sector Master Plan
- Government’s Incentive schemes for export

Timeline:
- 2004
- 2005
- 2006
- 2007
- 2008
- 2009
- 2010
- 2011
- 2012
- 2013
- 2014
- 2015
3. The Result of the Application

Evaluation methods

- Interrupted time series analysis
  : Amount of Export

- Compare 10-year periods before and after the 2005
  = the start of rigorous support of gov. to leather industry
  : The number of Enterprises, Employment, FDI,
    Diversification of structure and creation of added value
3. The Result of the Application

(1) Amount of Export

3. The Result of the Application

(1) Amount of Export

Source: World Integrated Trade Solution
3. The Result of the Application

(1) Amount of Export

| Parameter | Estimate | Standard Error | t Value | Approx Pr > |t| | Lag | Variable | Shift |
|-----------|----------|----------------|---------|--------------|-------|------|---------|-------|
| MA1,1     | -0.78974 | 0.19481        | -4.05   | <.0001       | 1     | Export | 0       |
| NUM 1     | 11.05121 | 2.67672        | 4.13    | <.0001       | 0     | Policy | 0       |

- ARIMA(0,0,1) model
- Policy intervention = 1
3. The Result of the Application

(1) Amount of Export

Export of shoes (1995~2013)

Source: World Integrated Trade Solution
3. The Result of the Application

(2) The number of Enterprises & Employment

3. The Result of the Application

(2) The number of Enterprises & Employment

The number of Employment (2000~2013)

3. The Result of the Application

(3) FDI

The number of Project

Source: UNIDO(2012), Ethiopian Investment Agency
3. The Result of the Application

(3) FDI

Source: UNIDO(2012), Ethiopian Investment Agency
3. The Result of the Application

(4) Diversification of industry’s structure

Source: UN comtrade
3. The Result of the Application

(5) Added-value

Share of added value

4. Conclusion

- The developmental state model of Korea is effective in the case of Ethiopia’s leather industry.

- For the attribute of developing countries, developing countries also can have the properties of developmental state.

- For the attribute of developmental state model:
  - It can be still effective, considering favored trade agreements incl. AGOA, EBA & Exemption for low income countries.
  - Manufacturing sectors are still important for developing countries.
Thank you for listening!