

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

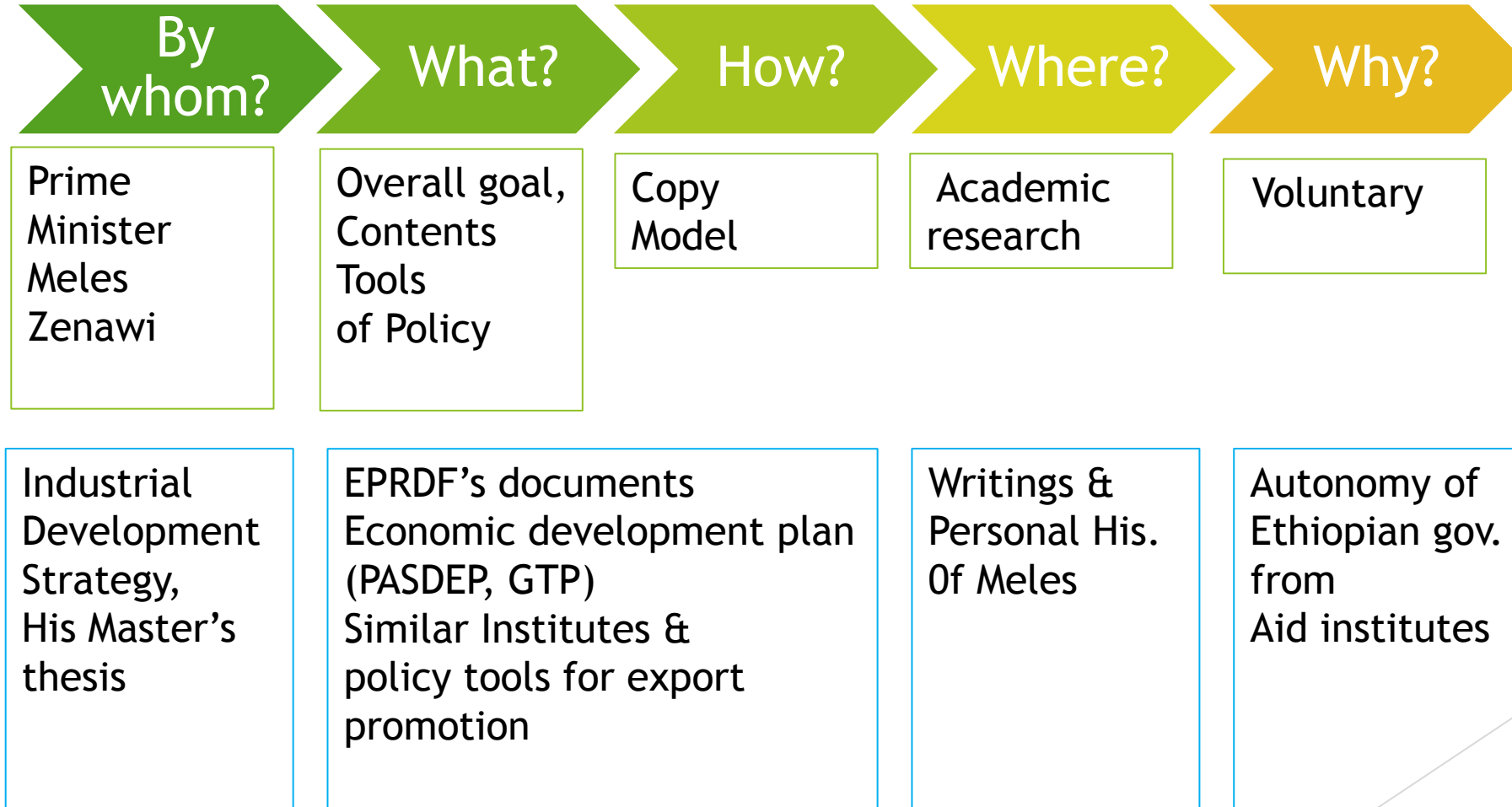
2. The Application of DSM of Korea to Ethiopia

Based on field interview



2. The Application of DSM of Korea to Ethiopia

Policy Transfer Model(Dolowitz & marsh,2000)



2. The Application of DSM of Korea to Ethiopia

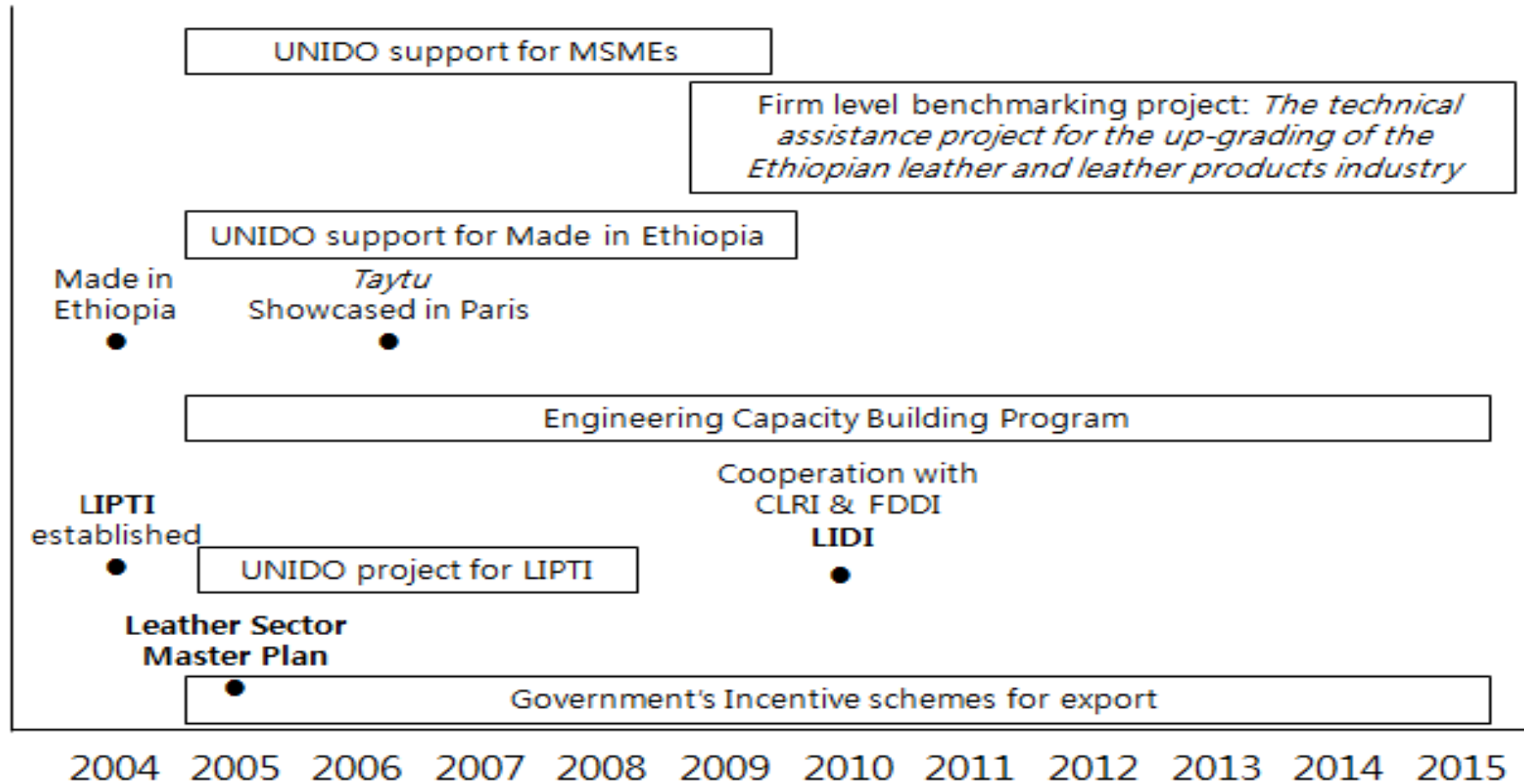
	Application points of Ethiopia
Political foundation	<ul style="list-style-type: none">• Prime minister Meles' strong leadership for economic dev.• Restriction of rent-seeking by explicit interest by Meles
Institution	<ul style="list-style-type: none">• Coordinating institution: National Export Steering Committee & Monthly Export Promotion Counsel• Embedded institution: National Export Development Committee
Policy instrument	<ul style="list-style-type: none">• Priority sector designation (leather industry)• Policy loan through state-owned bank• Tax exemption for exporting companies• Various export promotion policy<ul style="list-style-type: none">-ECBP, Made in Ethiopia, Benchmarking project• Five-year plan for economic development<ul style="list-style-type: none">- PASDEP, GTP, Master plan for leather industry

2. The Application of DSM of Korea to Ethiopia

	Policy	Goal	Major Practices
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- <i>Taytu</i> - 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



3. The Result of the Application

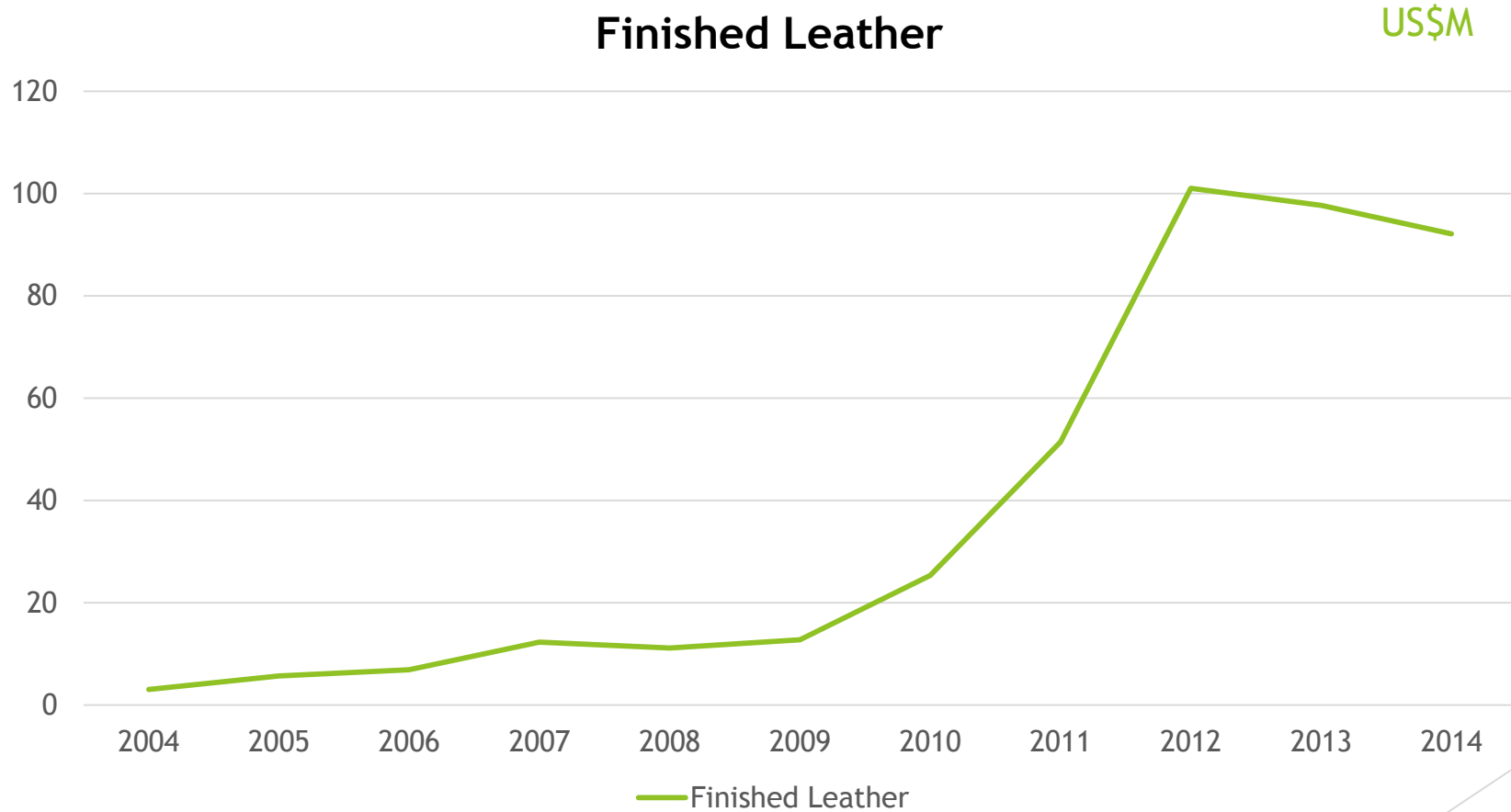
Evaluation methods

- ▶ 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



Source: UNIDO(2012), LIDI(2015)

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

Maximum Likelihood Estimation							
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

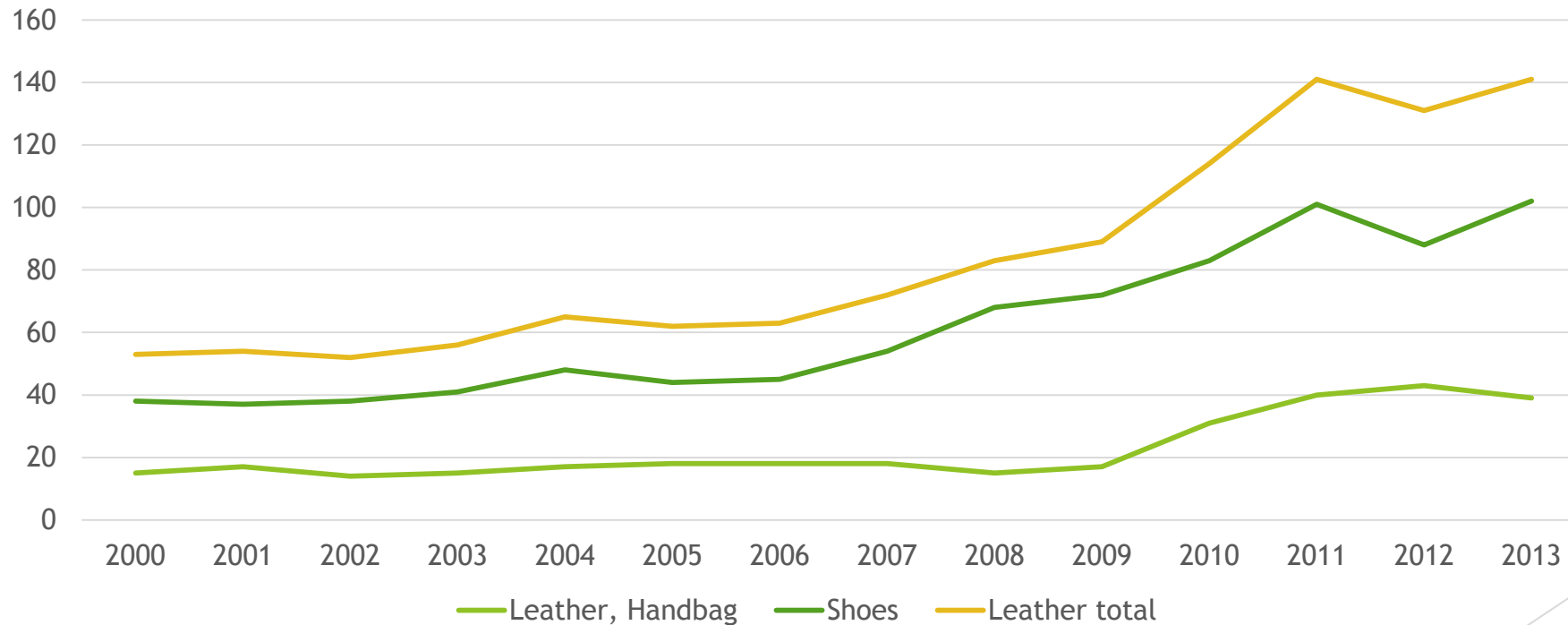


Source: World Integrated Trade Solution

3. The Result of the Application

(2) The number of Enterprises & Employment

The number of Enterprises(2000~2013)

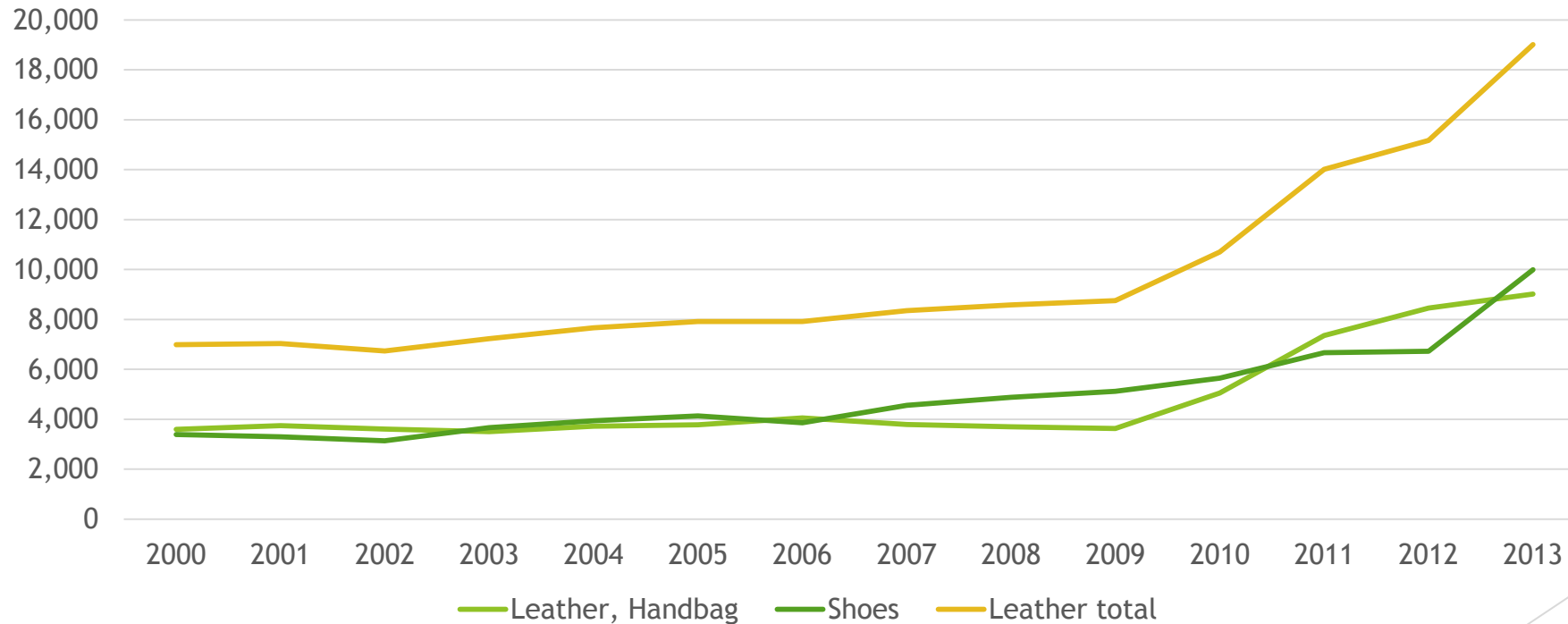


Source: CSA(2003),(2007),(2011),(2014)

3. The Result of the Application

(2) The number of Enterprises & Employment

The number of Employment(2000~2013)

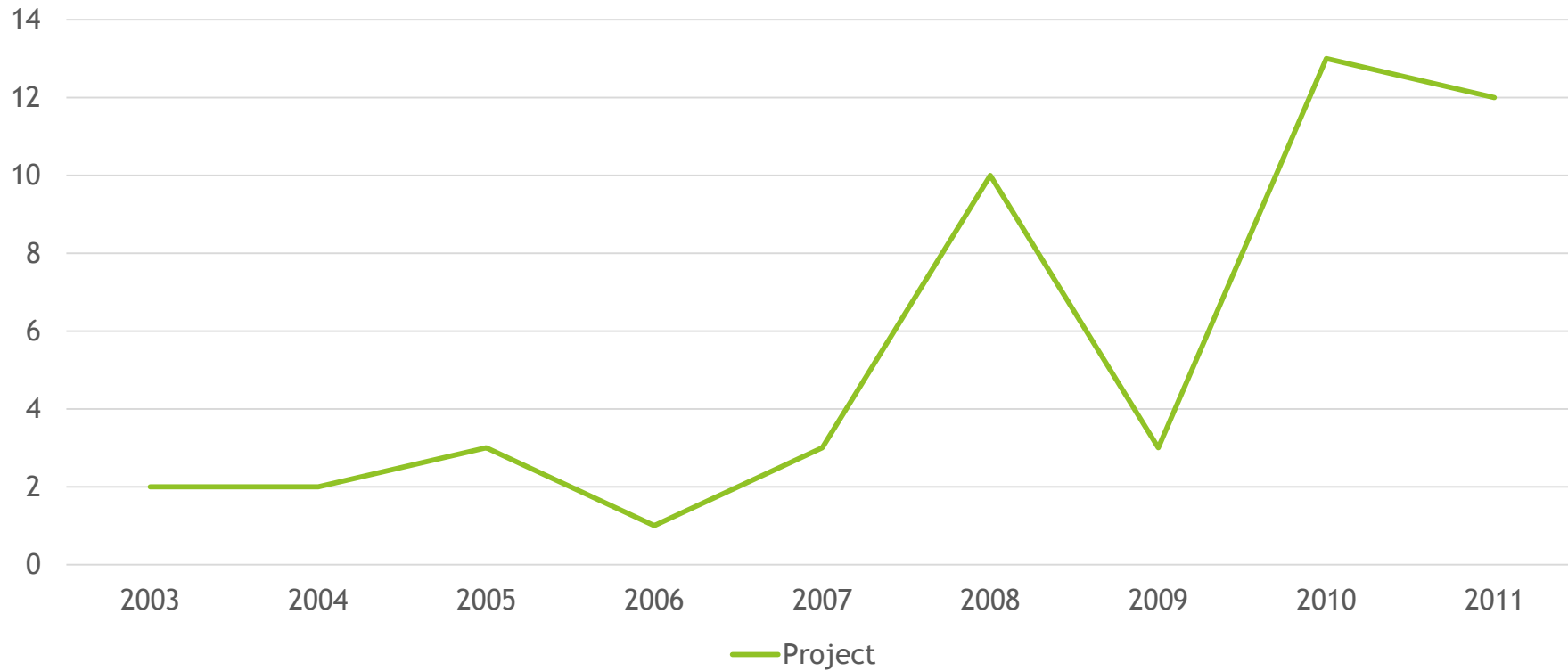


Source: CSA(2003),(2007),(2011),(2014)

3. The Result of the Application

(3) FDI

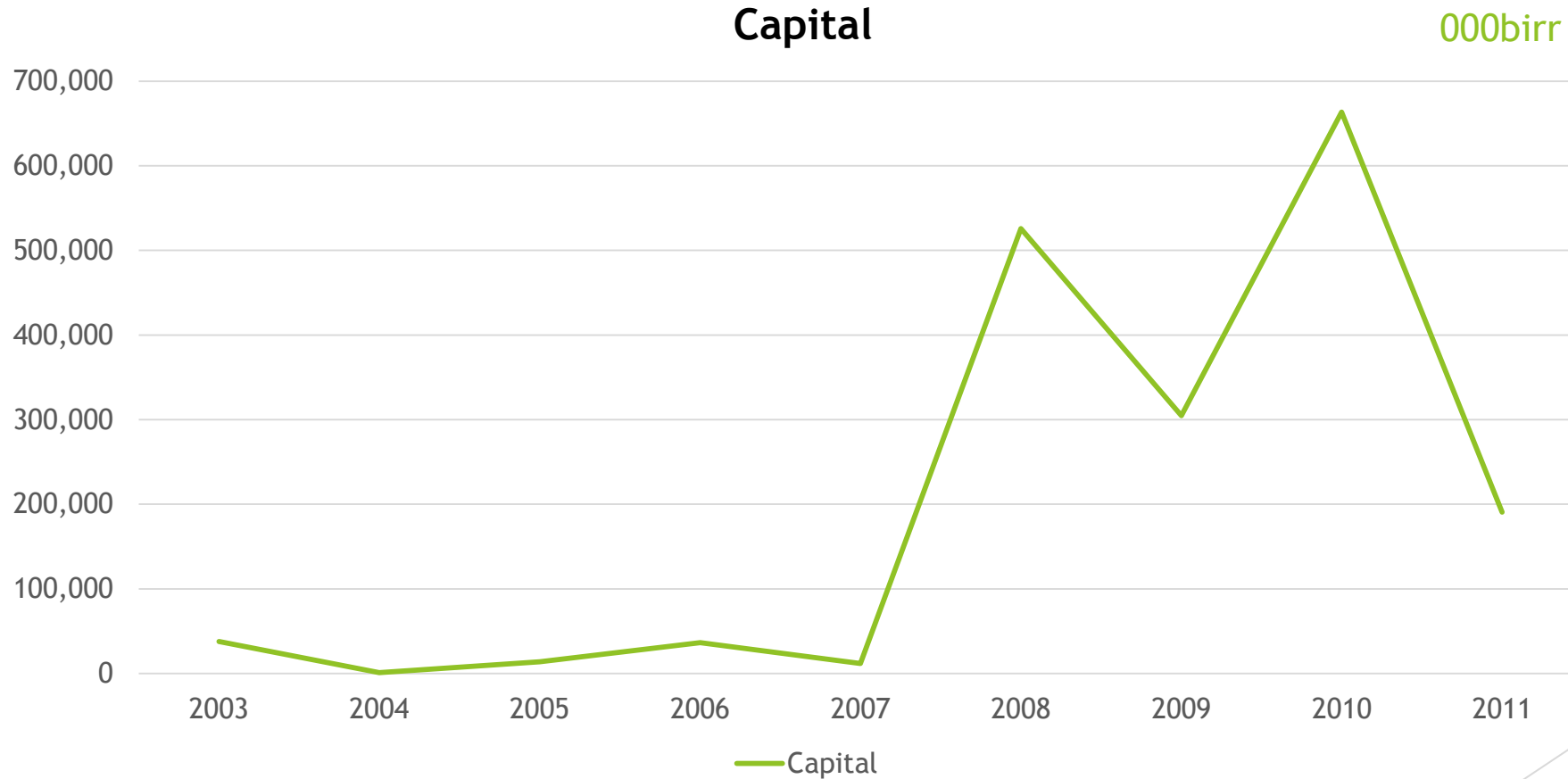
The number of Project



Source: UNIDO(2012), Ethiopian Investment Agency

3. The Result of the Application

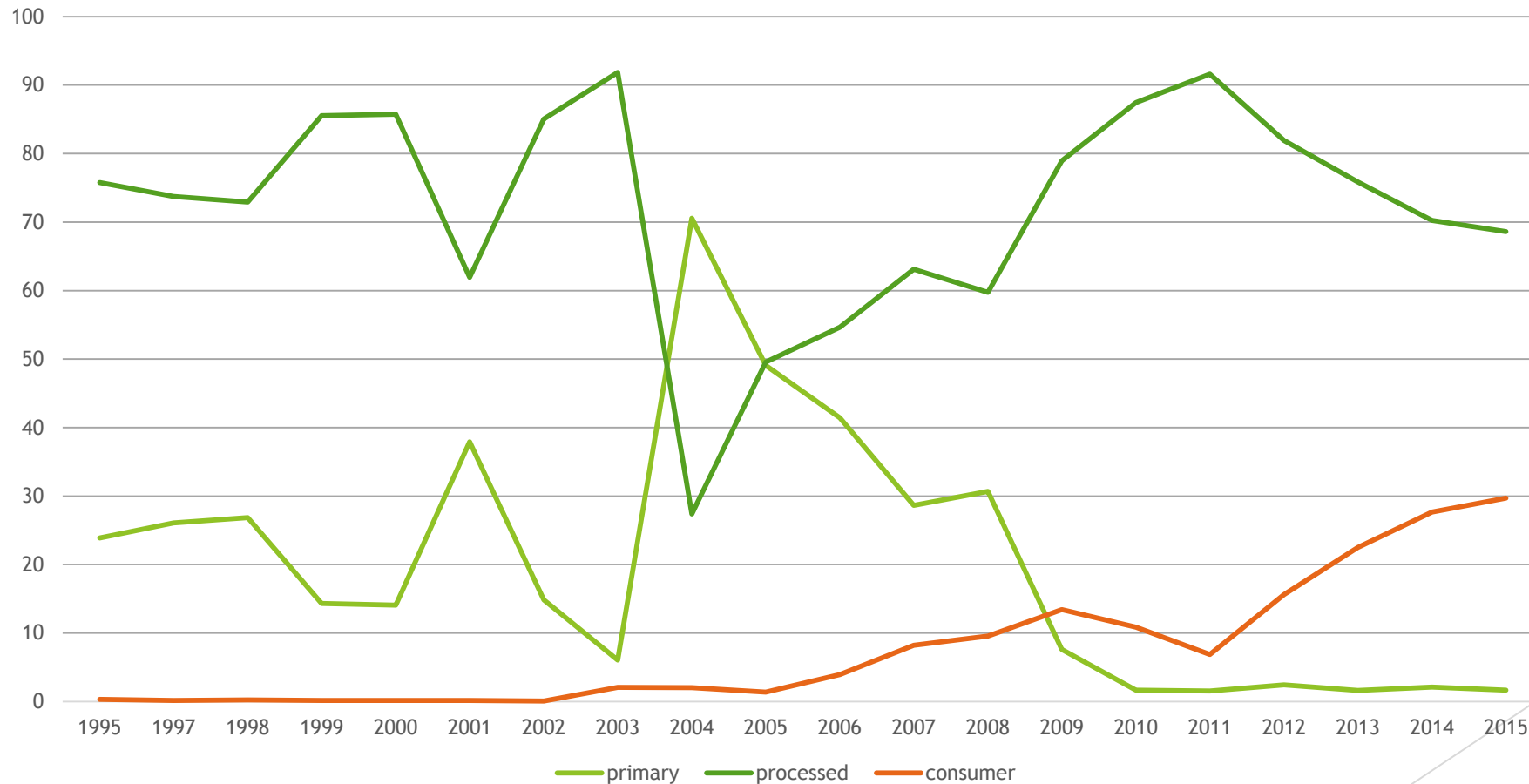
(3) FDI



Source: UNIDO(2012), Ethiopian Investment Agency

3. The Result of the Application

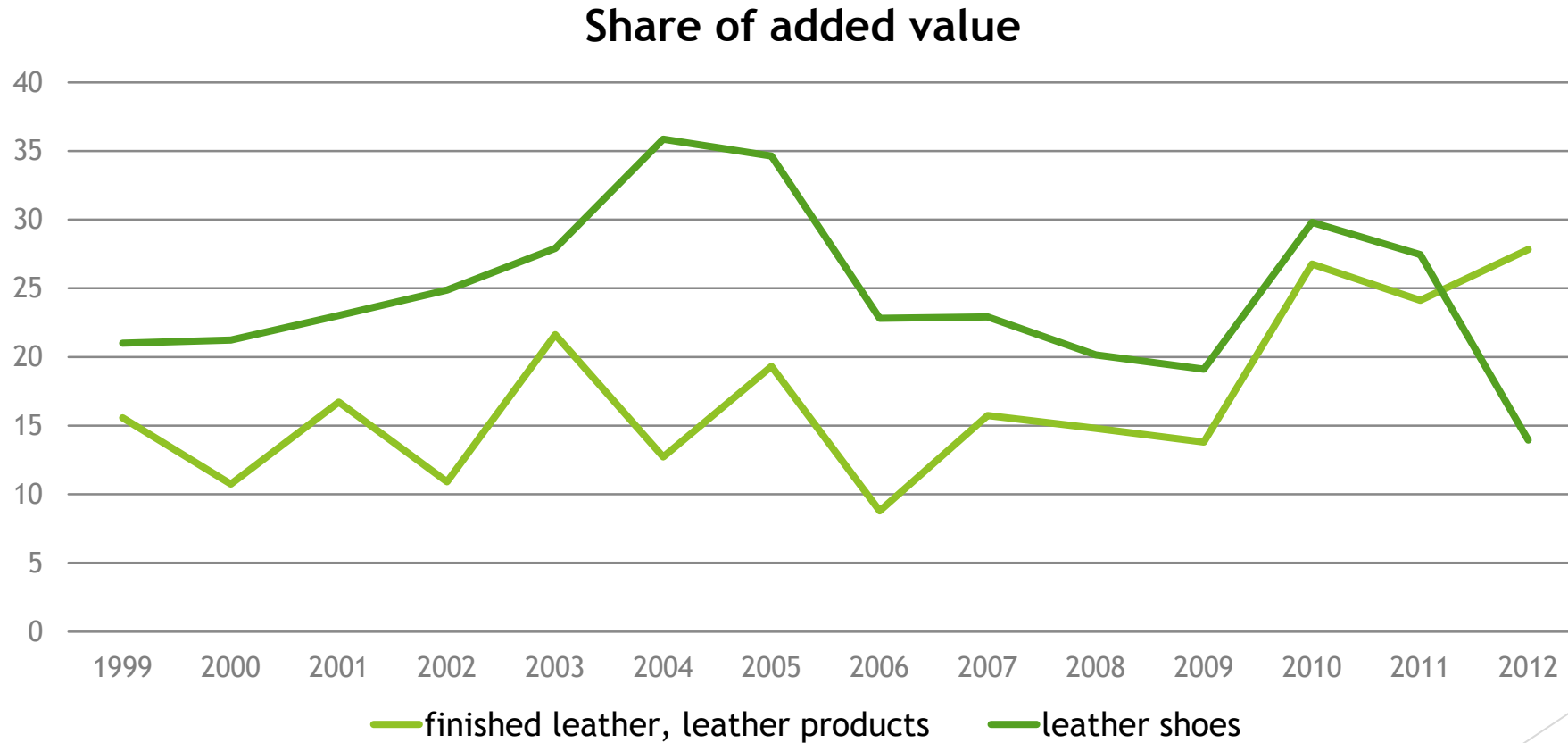
(4) Diversification of industry's structure



Source: UN comtrade

3. The Result of the Application

(5) Added-value



Source: CSA(2003),(2007),(2011),(2014)

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 **avored trade agreements** incl. AGOA, EBA & Exemption for low income countries
 - ▶ Manufacturing sectors are **still important** for developing countries

Thank you for listening!

