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Special Economic Zones as Instruments of Industrial Policy: The Ethiopian Experience[1]

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Abstract

Ethiopia has integrated Special Economic Zones (SEZs), named Industrial Parks, as the central element of its industrial policy over the past decade. This study investigates the Ethiopian experience with SEZs with a focus on the interaction of state actors with non -state actors including investors and labours in the development of its industrial parks. The central objective of the paper is to investigate how state actors and institutions evolved to shape and structure the deployment of Industrial Parks as an instrument of industrial policy in Ethiopia. The research is qualitative and based on secondary data and documentary evidence including published literature, government policy documents, legislations, regulations, and openly accessible information from local and international organizations. Process tracing is employed to systematically trace the evolution of policy, institutional, and regulatory frameworks. The primary finding of the study is that while the Ethiopian state has demonstrated considerable learning in the development of its industrial parks and managed to integrate the strategy well into its industrial policy, it lacks leverage over transnational capital to enforce technology transfer and create linkages within the local economy. This is compounded by a weak domestic private sector and disillusioned labour, which complicates efforts to improve productivity and foster local ownership. These two challenges might derail the effort to leverage industrial parks for broad-based transformation.

Keywords: industrial policy, special economic zones, industrial parks, Ethiopia

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Introduction

Industrial policy has made a comeback in policy and academic circles as an instrument to accelerate economic growth. At the root of this resurgence has been the success of the 'East Asian tigers' in overcoming poverty through accelerated industrialization, which has given legitimacy to the pursuit of industrialization through carefully designed policy interventions. One of the policy instruments that has been employed in these successes are Special Economic Zones (SEZs) (Zeng, 2016). Inspired by this success, Sub-Saharan African countries have embarked on their own SEZ experiments, although it has been rather disappointing (Farole, 2011).

Ethiopia is a late comer when it comes to SEZs. Since adopting its Industrial Development Strategy in 2002, Ethiopia has employed industrial policy in a comprehensive manner – explicitly adopting a state-directed model of development. The government has implemented policies to support the development of manufacturing by improving the business environment and supporting selected priority industries (Arkebe, 2015). Ethiopia's approach has also become more explicitly FDI-oriented, aimed at attracting investment to develop its manufacturing capability (Hauge, 2019). Over the past decade, SEZs (Industrial Parks in the Ethiopian parlance) have become the central element of industrial policy – with the government constructing parks across the country to address unemployment, foreign exchange challenges, and nurture the domestic private sector through demonstration and competition effects, technology transfer, and linkages. The government has also developed comprehensive national programme for SEZ development – through an intensive policy, legal, and institutional development, compounded by an aggressive investment on infrastructure and human capital.

While studies are emerging regarding Ethiopia's aspiring developmental state and industrial policy (Arkebe, 2015; Hauge, 2017; Weis, 2015; Clapham, 2018), few studies have explicitly looked at the experiment with Industrial Parks. A few studies have looked at specific features or trajectories of Ethiopia's industrial parks, usually with a focus on the experience of one park. Giannecchini & Taylor (2018) investigate the Eastern Industrial Zone (EIZ) and conclude that its lack of sectoral focus and linkages with the wider economy limit its positive impact on industrial development. Ermias (2019) meanwhile investigates the regulatory framework for industrial parks in the country. Mamo & Llobet (2017) investigate the importance of attracting lead firms to Ethiopia's industrial parks by undertaking a detailed investigation of the experience of the Hawassa Industrial Park (HIP). Barrett & Baumann (2019) also focus on the HIP to investigate labor

conditions and find that unfair working conditions and the resultant turnover are rampant. While studies that look at the experiences of some IPs are emerging, what is missing is a comprehensive political economy approach to investigate how the strategy came to be in the first place and identify its critical bottlenecks. This study is thus an attempt to address this gap by undertaking a comprehensive look at the evolution of the industrial park strategy and gauge its trajectory by focusing on how the state relates to capital and labor.

This study investigates the Ethiopian experience with a focus on the interaction of state actors with non -state actors including investors and labour in the development of its industrial parks. The central objective of the paper is to investigate how state actors and institutions evolved to shape and structure the deployment of Industrial Parks as an instrument of industrial policy in Ethiopia. In doing so, the study aims to elucidate the ideological vision and industrial policy behind the development of the Industrial Parks, the evolution of the industrial park strategy and its legal and institutional underpinnings, as well as how the state relates to capital and labour, so as to determine whether the strategy has a viable chance of achieving dynamic gains in the form of strengthened domestic linkages, technology transfer, upgrading, and enhancement of domestic productive capabilities.

The research is qualitative and based on secondary data and documentary evidence. Data for the study is derived from published literature, government policy documents, legislations and regulations, openly accessible information from local and international organizations, as well as unpublished studies, and grey literature. Data interpretation is done through process tracing, which, as a qualitative tool 'to study causal mechanisms in a single-case research design' (Beach & Pedersen, 2013, p. 2), is appropriate to systematically trace the evolution of policy, institutional, and regulatory frameworks. The study is also analytical, especially in the last section dealing with the relationship of the state with capital and labour and its impact on the trajectory of the country's SEZ-led industrial policy.

The central argument of the paper is that while the Ethiopian state has demonstrated considerable learning in the development of its industrial park's strategy and managed to integrate it well into its industrial policy to attract foreign investors, it lacks leverage over transnational capital to enforce technology transfer and create linkages within the local economy. This is compounded by a weak domestic private sector and a poorly paid and disillusioned labour, which complicates the state's effort to improve productivity and foster local ownership. These challenges might derail the effort to leverage industrial parks for broad-

based transformation. The rest of the paper is structured as follows. The next section undertakes a brief overview of the literature on industrial policy. The next three sections address the three themes: the ideological vision and industrial policy, the evolution of industrial parks strategy and its legal and institutional underpinnings, and the relationship of the state with capital and labour and how that affects the possibilities of insertion in global production networks. The last section concludes.

Industrial policy and special economic zones (SEZs)

With the ascendency of neoliberalism, industrial policy lost its appeal to become the 'policy that shall not be named' (Cherif & Hasnov, 2019). Recently however, there is a resurgence of interest as scholars increasingly acknowledge the central role of the state in inducing a process of structural transformation (See Chang, 2002; Rodrik, 2007; Lin & Chang, 2009; Khan & Blankenburg, 2009; Lin, 2014; Whitfield et al., 2015). Broadly, industrial policy refers to consciously designed state interventions in the economy to bring about structural transformation through the reallocation of resources from low-productivity to high-productivity activities (Rodrik, 2007).

Several arguments are marshalled in support of industrial policy. The oldest argument is infant industry protection by List (1909, p. 32 [1841]) who argued that moderate protection of 'infant manufactures' together with 'practice, experience, and internal competition' can raise their productivity to the level of their foreign competitors. The second argument is information externalities and knowledge spillovers (Rodrik, 2007; Lin & Chang, 2009). Economic activities produce information about opportunities, but the benefits of this information are not fully captured by the first mover as competitors will also be able to capitalize on it. Additionally, positive externalities from R&D and worker-training are not fully appropriable by the investing firms. Government support can offset these disincentives. Thirdly, industrial policy is required because of coordination failures (Lin & Chang, 2009; Chang et al., 2016). Simultaneous investments in various sectors and setting up of complementary industries are required for a sector to be viable. However, the market has no established mechanism of coordinating these investments and thus the state will have to play this role. Finally, industrial policy is required to underwrite risk and uncertainty (Chang et al., 2016). The government has a 'deep pocket' and can undertake riskier investments as well as underwrite risk for those making the investment.

One instrument that has been used successfully by late industrializers are Special Economic Zones (or variants including Export Processing Zones, Foreign

Trade Zones, Economic Processing Units) which aim to engender agglomeration and clustering. Such zones are generally characterized by a different regulatory regime from the rest of the country; a dedicated governance structure to ensure efficient management of the regime, and provision of 'a physical infrastructure supporting the activities of the firms and economic agents operating within them' (Farole, 2011, pp. 24-25). SEZs are usually designed to achieve a set of objectives including attracting foreign investment, alleviating unemployment, enhancing exports, fostering technology transfer and linkages to improve the capability of local producers, and sometimes as laboratories to test economic reform (FIAS, 2008; Arkebe, 2020)

There is an intense debate about the impact of SEZs. The orthodox liberal perspective argues that SEZs are 'second best' alternative to full scale liberalization and sees them as a distortive policy tool. It is thus argued that such zones are welfare-reducing by drawing countries away from their comparative advantage and delaying full scale liberalization (Hamada, 1974; World Bank, 1992). Others look at SEZs from the perspective of transformative development as a component of a broader industrial policy that can be used to develop the manufacturing sector through demonstration effects, technology transfer, and fostering domestic productive capabilities (Stein, 2012; Arkebe, 2020).

Several case studies have come to different conclusions about SEZs. Undertaking a case study of Mauritius, Romer (1992) argues that what the EPZs achieved was not simply attracting physical capital or finance but ideas: "ideas about the textile and garment business, including ideas on the specific kind of equipment to use, how to manage a small factory…" thus filling a knowledge gap and contributing to growth (p. 78). Johansson & Nilsson (1997) look at Malaysia and argue that EPZs have a 'catalyst effect' as foreign affiliates investing in the zones 'stimulate local firms to begin to export by showing them how to produce, market, sell, and distribute manufactured goods in the world market' (p. 2115).

Kaplinsky (1993) looks at Dominican Republic and argues that specialization through EPZs by focusing on labour-intensive manufactures has resulted in 'immiserizing' growth as the pursuit of static comparative advantage led to a specialization that resembles specialization in primary commodities – 'in that its core element is simple, unskilled labour which is easily replaceable' (p. 1862). Schrank (2001) compares the experiences of Dominican Republic and South Korea and argue that prior experience with ISI and the level of development of an industrial base determines whether countries will be able to establish meaningful linkages and break into world markets. Stein (2012) looks at the African experience and argues that SEZs have failed because they have been

driven by faulty neo-liberal assumptions which sees SEZs as 'second best' solutions, unlike Asia where SEZs were 'a component of [a] broader strategy to industrialize the country' (p. 2). This, however, did not take the Ethiopian experience since Ethiopia's industrial parks were still at their infancy at the time.

Thus, it is possible to deduce that there is no consensus. Generally, SEZs are likely to succeed when they are designed within the broader framework of industrial policy, aimed at learning, upgrading and structural transformation (Arkebe, 2020). They should be conceptualized within the broader political landscape of the country, taking into consideration 'the ability of the state to manage reciprocity of productive rents from firms, the relative power of industrialists and labour, the allocation and administration of land' among others (Arkebe, 2020, p. 32).

The ideological vision and practice of industrial policy in Ethiopia

Ethiopia has made impressive gains in terms of economic transformation over the past two decades. Its economy grew at an impressive rate of 9.9% in the 2007/08 – 2017/18 period, while GDP per capita has climbed from $162 in 2005 to $857 in 2019 (World Bank, 2019). It has registered improvements in its physical infrastructure – roads, rail and power generation, while it has also made substantial social gains – with a decline in the national poverty rate from 45.5% in 2000 to 23.5% in 2016 (UNDP, 2018), while life expectancy has risen from 52 in 2002 to 68 in 2018 (World Bank, 2019a). Understanding the trajectory of Ethiopia – including its experiment with SEZs – requires understanding the ideological vision guiding the economic experiment and the industrial policy derived from it.

At the head of Ethiopia's experiment with an ambitious industrial policy is the Ethiopian People's Revolutionary Democratic Front (EPRDF) – a coalition of ethnic-based regional parties – that monopolized politics from 1991 to 2019[3]. The EPRDF followed a state-led development model by resisting incessant calls for greater opening-up and liberalization of the economy, openly rejected neoliberalism as a 'dead end', and advocated for an activist state that allocates state created rents in a productive manner (De Waal, 2013).

This ideological bent of the EPRDF meant it primarily looked to the East for inspiration, attempting to learn from the experiences of China, South Korea, and Taiwan. The regime also fiercely guarded its autonomy from the influence of

[3] Following turbulent political developments, the EPRDF has been disbanded from within. Since these are fast-changing developments, they are not captured in this paper which focuses on EPRDF's period.

International Financial Institutions (IFIs) and donors in its policy making – which it achieved by developing multiple partnerships and avoiding reliance on any one power, as well as positioning itself as indispensable partner for peace and stability in the Horn of Africa (Clapham, 2018; De Waal, 2019). Thus, rejecting conventional mainstream approaches, the EPRDF regime attempted to portray itself as an 'aspiring developmental state' (Arkebe, 2015) with a broad vision for economic transformation. This ideological vision was concretized through an active industrial policy aimed at structural transformation.

One of the expressions of this concretization industrial policy is national planning that focuses on growth and development, even at a time when the fashionable goal was poverty reduction. The earliest expression of this was the Agricultural Development Led Industrialization (ADLI) set out in 1993/94, which aimed to improve agriculture through labour intensive production and extension as well as establish forward and backward linkages between agriculture and industry (Lavers, 2019). ADLI's vision was for agriculture to play a leading role in preparing the country for industrialization, and for industrialization to in turn serve agriculture (Mulu, 2013).

A comprehensive industrial policy with a focus on manufacturing, based on the vision set out in ADLI, was however not to come until 2002/2003, when the Industrial Development Strategy (IDS) was adopted (Mulu, 2013). The IDS emphasised a focus on export-led industrialization based on labour-intensive industries, the development of infrastructure to support accelerated economic growth, and a focus on small enterprises for the twin goals of job creation and poverty reduction, with the state playing a leading role by creating a conducive environment and providing targeted support (Admit, 2008; Arkebe, 2019).

This strategy was further concretized in the Five-Year plans that followed: The Plan for Accelerated and Sustainable Development Programme (PASDEP) in 2005/6 – 2009/10, the Growth and Transformation Plan I (GTP I) in 2010/11-2014/15, and the follow-up GTP II in the 2015/16-2020/21. The GTPs collectively aimed to put the economy on an accelerated growth path with the goal of becoming a middle-income country by 2025. GTP I was an ambitious document that aimed to expand GDP at 11 to 15% per annum to double the economy in five years to put it in a path to reach a middle-income country by 2025 (MoFED, 2010). The GTP II critically took stock of the successes and shortcomings of GTP I to set up a concrete transformative agenda to achieve 'rapid, broad based and inclusive economic growth' (NPC, 2016). A much clearer focus on leveraging light manufacturing to bring about structural transformation and a wide array of clearly targeted sectoral support is articulated in GTP II (NPC, 2016).

Such planning aimed at structural transformation through an active industrial policy has been accompanied by a growing expansion of the 'industrial policy bureaucracy'. Accordingly, coordinating institutions, lead institutions, and sectoral agencies have developed and expanded. The coordination bodies include the National Export Coordination Council (NECC) which focuses on export coordination and the Ethiopian Investment Board (EIB) which is tasked with directing investment and industrial policies, both chaired by the prime minister. The lead agencies are the Ethiopian Investment Commission (EIC) and the Ethiopian Industrial Parks Developments Corporation (IDPC) (elaborated in the next section). Sectoral agencies designed to lead priority sectors include, among others, the Leather Industry Development Institute (LIDI), the Textile Industries Development Institute (TIDI), and Ethiopian Horticulture Development Agency (Arkebe, 2019; Hauge, 2019)

Thus, the regime articulated a vision of socio-economic transformation and put in place strategies, plans, and institutions to turn this vision in to a reality. However, two main caveats are worth mentioning. First, as Weis (2016) and Chang & Hauge (2019) argue, the bureaucracy, while strong, was highly influenced and micro-managed by the top political leadership and far from being autonomous or efficient. Secondly, as Clapham (2018) argues, the domestic private sector is weak, fragmented, and largely side-lined by a state that is infatuated with foreign investment.

It is however worth noting that there have been substantial changes in the post-2018 period since the coming of Prime Minister Abiy Ahmed to power regarding the ideological vision of the ruling party, which has been reconstituted as Prosperity Party in 2019. In the economic sphere, the new leadership undertook reforms with the goal of liberalization and privatization by easing the state-directed development strategy that oversaw the rapid economic growth of the past two decades. The new leadership determined that the country's development model has reached its limits and required tweaking, largely in the form of liberal reforms that aim to transform the economy into one that is private sector-led by retrenching the state. While it is unclear how this will impact the industrial park's strategy, it is sensible to expect that the role of the state in developing and administering IPs would be substantially reduced as the private sector progressively takes over. There are also plans underway to determine the financial viability of privatizing Industrial Parks as a part of the government's privatization agenda (Capital, 2020). However, the government intends to use revenue from such privatization efforts to develop new industrial parks, and thus the state will continue to have some role. It is also worth noting that despite what appears to be a radical break from the past,

the new regime has demonstrated a degree of pragmatism in its economic policy by resisting calls for wholesale privatization and opening up, for instance, by reversing its plans to privatize Ethiopian Airlines and the Ethiopian Shipping and Logistics Corporation.

Ethiopia's experiment with SEZs

In line with Ethiopia's goal of becoming a manufacturing hub, the construction of Industrial Parks has accelerated in the past five years. By 2019, five government-owned parks and four private parks have become operational, the construction of seven has been completed, while another five were under construction, with more on the planning phase (Arkebe & Deborah, 2020). While the five government-owned parks employed a total 48,800 by 2019, an additional 26,700 were employed in the private parks –creating 75,500 jobs by the end of the year (Arkebe & Deborah, 2020). The export performance of the industrial parks has been sluggish but shows a steady growth: while the total export from the parks was $72 million USD in 2017/18, this has increased to 142 million USD in 2018/19 (CEPHEUS, 2019, Xinhua 2019). With the government having spent over USD 780 million for their construction so far (Capital, 2019), industrial parks have thus become the corner stone of the country's industrial policy. This focus on industrial parks as a tool of industrial policy did not emerge over night; it was an iterative process that developed over more than a decade.

Evolution of the industrial parks development strategy

The earliest mention of an industrial zone strategy in Ethiopian policy documents was in the Industrial Development Strategy (IDS) of 2002, which proposed building industrial zones in all major cities with complete infrastructure and facilities so as to facilitate investment (MoTI, 2002). This was however not followed by any concrete action, neither was it incorporated in the Five-Year Plan for the 2005/6 to 2009/10 period that followed.

The impetus for the first zone was rather to come from a foreign initiative. In 2006, China announced it will construct economic trade and cooperation zones in Africa in line with Forum on China Africa Cooperation (FOCAC) as part of its 'going global' strategy (Brautigam & Tang 2013, p. 81-82). Chinese companies were invited to submit a proposal with the Chinese Ministry of Commerce to access funding and support through this initiative (Brautigam & Tang, 2013). One of the companies selected was the Qiyuan group, a private steel manufacturer, which proposed to build an industrial zone in Ethiopia aimed at producing construction materials as Ethiopia's construction sector was booming (Brautigam

& Tang 2011, p. 36). The planning of the zone was initiated in 2007 and it launched in 2009 as Eastern Industrial Zone (EIZ), the first SEZ in Ethiopia (Giannecchini & Taylor, 2018, p. 29). Located 30km south-east of the capital Addis Ababa, the zone was initially planned to be a $5km^2$ as the Quiyuan Group was working in partnership with a larger company, the Yonggang Group – but was downsized to just $2km^2$ as the latter dropped out because of the 2008 financial crisis (Giannecchini & Taylor, 2018; Rohne, 2013).

At this stage, there was no strategic vision from the Ethiopian side. There was no policy and institutional framework to govern its development or the development of future zones. Additionally, the Chinese group took the lead, with limited involvement from Chinese government or the Ethiopian side. While there was huge interest and political support on the Ethiopian side[4], there was a lack of clarity on how it should be approached or what its goals should be. The inexperience is demonstrated by the fact that the government asked the Qiyuan group to develop the infrastructure leading to the EIZ – including power lines, water supply, and waste treatment – which is contrary to common practice (Gakunu et al., 2015, p. 21). Another shortcoming was the absence of any sectoral focus as it hosted an eclectic array of investments in cement, packaging, agricultural machinery, leather, and steel bars (Giannecchini & Taylor, 2018, p. 30).

These challenges led to significant delays. By 2012, five years after its start, the construction was not complete, and the infrastructure remained sub-optimal. A success of the EIZ was however attracting the Huajian Group, an anchor firm in leather products that went on to become one of its main exporters, expanding to other parks, and establishing its own park (Noel, 2019; Hager et al., 2019).

With the development of the EIZ going in a haphazard manner, Ethiopia incorporated the construction of public-owned parks as one objective in the Five-Year Plan for the 2010/11-2014/15 period (MoFED, 2010). It was indicated that at least four industrial zones suitable for medium and large-scale manufacturing will be developed (MoFED, 2010). The goals were identified as 'poverty eradication by creating employment' as well as increasing exports and import substitution (MoFED, 2010, p. 61).

[4] This can be ascertained from repeated visits to the zone by senior government representatives including at the Presidential and Ministerial levels (Gakunu et al., 2015, p. 20).

Meanwhile, the construction of the second IP needed another impetus; the visit to South Korea by the late Prime Minister Meles Zenawi in 2011 where he met with investors who expressed interest in Ethiopia. Upon his return, the Prime Minister instructed the development of the second park – Bole Lemi I – with the objective of accommodating this and similar investments in the manufacturing sector (Ermias, 2019). Unlike the EIZ, the development was in the hands of the government and the park was to be government-owned, financed in collaboration with the World Bank (Gakunu et al., 2015). The Ministry of Industry, which was entrusted with the development of the zone, decided to construct the park in the outskirts of Addis Ababa on 156 hectares of land and contracted 23 Ethiopian contractors to develop the park (Arkebe, 2015a). While it was expected to be developed in nine months, it took five years as a result of multiple challenges – resettlement of households, difficulty in establishing one-stop-shop, difficulty availing utilities, and the inexperience of contractors (Arkebe, 2015a; Gakunu et al., 2015; Arkebe, 2015a).

Thus, in developing the second park too, there were several gaps. The multiplicity of the domestic contractors, none of which have any experience developing an industry zone, was a problem. The selection of location was not undertaken by taking into consideration infrastructure availability outside the park, which can be discerned from the fact that it still uses a temporary mobile power substation (Yechalework, 2019, p. 48). The park turned out to be a catch-all park that incorporates diverse investments – although better than the EIZ in its sectoral focus. Furthermore, none of the other parks planned in the GTP I period were constructed. Rohne (2013, p. 28) argues that the EIZ was operating in a 'policy-vacuum, where no Ethiopian law, policy or organ was designated to govern its existence'. This can be extended to the development of Bole Lemi I, at least in the first few years of its development.

Frustrations with the way the two parks progressed initiated a serious attempt at legal and institutional development. A series of legislations, regulations, and institutions came into being post-2012 to incorporate Industrial Park Development as a central feature of the country's industrial policy. Already in 2012, a positive step in the development of a legal and institutional framework for industrial zones was taken as it was incorporated in the country's Investment Proclamation (IP, 2012). The Proclamation called for the establishment of the industrial development zones and declared that the development of such zones shall be primarily undertaken by the federal government and only 'where deemed necessary' in partnership with the private sector or by private investors (IP, 2012). More importantly, it calls for a bill governing the development of industrial

development zones as well as the establishment of a government body for their administration and supervision (IP, 2012).

Accordingly, in 2013, the government spearheaded by the office of the Prime Minister initiated a comprehensive study on industrial zones with the goal of learning from the experiences of six countries; South Korea, Singapore, China, Vietnam, Mauritius, and Nigeria, representing both successes and failures, to serve as an input in developing the policy framework (Arkebe & Deborah, 2020). The study involved country and site visits in addition to documentary reviews and culminated in the development of a White Paper in 2014 which formed the basis of the legal and institutional framework (Arkebe & Deborah, 2020).

Legal and institutional framework

Out of this process was born the Proclamation on Industrial Parks Development (Proclamation 886/2015). This was preceded by a reestablishment of the Ethiopian Industrial Parks Corporation (IDPC) as a profit making SOE in 2014 and followed by the reestablishment of the Ethiopian Investment Agency as the Ethiopian Investment Commission (EIC), and the establishment of the Ethiopian Investment Board (EIB) (EIBEICER, 2014). These institutions collectively make up the main industrial policy institutions of the country.

Within this new framework, the role of Industrial Parks in Ethiopia's industrial policy has become properly established. The Proclamation states its purpose is to 'accelerate the economic transformation and development of the country through the establishment of Industrial Parks in strategic locations', as well as 'promote and attract productive domestic and foreign direct investment thereby upgrading industries and generate employment opportunity' and 'enhance export promotion, protection of environment and human wellbeing…' (IPP, 2015). This demonstrates how informed the setting of its objectives are unlike earlier efforts, as it combines static goals in terms of employment creation and exports with dynamic goals regarding economic transformation and upgrading.

Three of the institutions mentioned above have slowly become the core of industrial policy because of this long process of evolution: the IDPC, the EIB, and the EIC. These executive organs have provided coherence and guidance to the development of industrial parks.

IDPC, established in 2012, was re-established in 2014 a federal government public enterprise (IPDCER, 2014). It is tasked with developing and administering industrial parks, leasing and/or transferring developed land, preparing a detailed national industrial parks master plan, serving as an industrial park land bank, making infrastructure available to industrial park developers, and promoting the

parks to (IPDCER, 2014). Importantly, it was also empowered, in line with guidance from the Ministry of Finance, to 'pledge bonds and to negotiate and sign loan agreements with local and international financial sources' (IPDCER, 2014), which became a critical element in the rapid construction of various parks.

The Ethiopian Investment Commission (EIC) priorly existed as an agency accountable to the Ministry of Industry but was re-established as an independent Federal Government body accountable to the Prime Minister, expanding its remit to deal with investment promotion, industrial parks, and export promotion (EIBEICER, 2014; Suton, 2019). Accordingly, it is empowered to serve as the centre of investment related activities including initiating policy and creating a conducive environment, negotiating towards investment promotion and protection, serving as a liaison and coordinating body between investors, public offices, and regional governments, dealing with technology transfer agreements, and providing post-investment support (IP, 2012). It is also empowered to recruit investors that can engage in the development of industrial parks and take part in the manufacturing sector, develop strategies for enhancing productive capacity and support local investors to set up in industrial parks, provide industrial parks logistical and export support, and coordinate the recruitment and training of an industrial workforce (IPR, 2017). Thus, the EIC is developed as the central organ that links all industrial policy instruments and institutions, coordinating the development and implementation of policy in a strategic manner.

Finally, the Ethiopian Investment Board (EIB), chaired by the Prime Minister and bringing actors from key ministries and agencies together, is the highest body tasked with designating, overseeing the administration of industrial parks. It also decides on policy matters regarding industrial park end users and ensures that the concerned government organs put in place a sustainable system for the provision of one-stop shop services in the parks (IPR, 2017). It is also tasked with developing and adopting strategies to create and expand new productive capacity (IPR, 2017). The fact that investment promotion and coordination with a focus on manufacturing has been raised to the level of the top executive, steered by the Prime Minister, illustrates that development has become the central business of the state.

Overall, while the government approached the development of industrial zones in an ad hoc in the 2000s, a substantial process of policy, legal, and institutional development has taken place in the past decade, bringing industrial parks from the margin to the centre of industrial policy.

Hawassa industrial park

It is possible to observe that these developments have had concrete impacts on how the government undertakes the development of industrial parks, which has become substantially efficient, speedy, and of an improved quality with a clear sectoral focus. This can be demonstrated by looking at the third industrial park that followed the EIZ and Bole Lemi I, the Hawassa Industrial Park (HIP).

Constructed in record nine months by the Chinese SOE China Civil Engineering Construction Corporation (CCECC) and inaugurated in 2016, the HIP is an eco-friendly industrial park with an exclusive sectoral focus on textile and apparel production. Built at a cost of $250 million financed through the sale of Eurobonds, the park rests on 130hectares of land, and contains 52 hangar-sized sheds (Azmach, 2019; Mamo & Llobet, 2017). Located 275km outside Addis Ababa in the then capital city of the Southern Regional State, Hawassa[5] – HIP is state of the art in that it functions with zero-liquid-discharge common effluent treatment plant, renewable hydroelectric energy and fitted with energy saving technology, as well as compliance with global fire and building as well as environmental standards (Mamo & Llobet, 2017). The city lies on the Trans-African highway that runs from Cape Town to Cairo and is in the process of being linked to the Modjo dry port, which has direct rail connection to Port Djibouti, through an expressway under development (Mamo & Llobet, 2017).

The park is anchored by PVH Corp., the second largest apparel company in the world owning popular brands like Tommy Hilfiger and Calvin Klein, which also played an important role in its development and convinced its top suppliers to build factories and a fabric mill to create a vertically integrated value chain (Mamo & Llobet, 2017). A clear indication that this park stirred huge interest was the fact that all its sheds were leased out even before construction was complete (Lopes, 2019). The larger surrounding of the city is one of the most densely populated areas in the country, making it an ideal location for the recruitment of labour. As such, HIP has quickly become the largest employer among the industrial parks, employing nearly 25,000 of the country's 75,000 workforce in industrial parks, as well as the biggest exporter as of 2019 (Yechalework, 2019).

Compared to the previous experiences, the government got a lot of things right in HIP. Hiring a highly experienced contractor to develop the park as a

[5] Hawassa now serves as the Capital of the Sidama Regional State, which became Ethiopia's tenth regional state by separating itself from the Southern Regional State in June 2020 following a referendum in 2019.

turnkey project ensured that it was completed in nine months, compared to the EIZ and Bole Lemi I which took up to five years. The commitment to a sector – textile and apparel – enabled designing it so that companies can easily set-up and start production in a short time, in addition to co-locating which enables agglomeration. The choice of location took into consideration both the infrastructural needs, which is being further improved through accompanying investment in an expressway, as well as the available labour pool. Additionally, the decision to find a lead firm as an anchor was a resounding success as convincing a corporation of PVH's size and reputation to invest in Ethiopia is a challenging task. Furthermore, the decision to equip the facility with state of the art environmental and safety standards indicated the country intended to improve its competitiveness by developing a reputation as an environment-friendly manufacturing destination.

In line with its GTP II, the construction of the other industrial parks has accelerated throughout in the country. While it is still too early to determine if these parks have adhered to the standard set by the HIP, it is clear that it has become the government's main goal to build all parks with a roughly similar quality and principles.

Features of Ethiopia's IP strategy

The above discussion of the evolution of the strategic approach to industrial parks demonstrates there has been a substantial process of policy learning. Learning took place through trial and errors (the first two parks), other countries' experiences (through a White Paper that evaluated the experiences of other countries), and demonstration effects (HIP as a model).

The Ethiopian approach to industrial parks can be said to be characterized by the following elements. *First*, there has been an understanding that FDI can play a strategic role in manufacturing and thus has been given the utmost attention, with the industrial parks serving as the locus of this FDI-based industrial policy. *Second*, the realization that lead firms can play a significant role by utilizing their reputation and networks has led to a focus on concentrating efforts on such big companies to serve as anchor firms of the parks. This is combined with the idea of 'verticality' (Arkebe & Deborah, 2020) to leverage the anchor firms to draw in their suppliers and utilize that to build a vertically integrated value chain in priority sectors.

A related concept is that the parks should be dedicated to sectors (EIC, 2020). Accordingly, most of the parks have become associated with specific sectors, although garment and apparel dominate. *Fifth* is an attempt to address environmental impacts by building eco-friendly and energy efficient parks.

Finally, the government has effectively integrated industrial parks into its industrial policy, thus coordinating with other required investments, especially towards developing the associated infrastructure.

Factors affecting industrial parks development strategy

While Ethiopia has put in place the right legal and institutional framework and heavily invested in developing the associated infrastructure, outcomes in terms of transfer of knowledge and technology to local manufacturers, build-up of domestic productive capacity, creation of productive linkages are far from certain. These goals depend on the capacity of the state to 'discipline' investment – both foreign and domestic, as well as labor conditions. It is these two issues that this last section addresses.

The state and capital

Developing a light manufacturing industry that is globally competitive and ensuring that domestic firms develop their capabilities by learning from their foreign counterparts is not an automatic process. In countries where such transformation took place, such as South Korea and China, it required elaborate polices but also leverage over transnational capital to induce it to share its technology with local partners and utilize an ever-increasing share of local inputs, for instance through strict local content policies and joint venture requirements (Hemphill & White, 2013), as well as capacity to enforce export discipline over its domestic manufacturing sector (Amsden, 1992). Thus, looking at the how the state relates with foreign investors and with the domestic capitalist class is essential.

In terms of the first, there are reasons to believe that an unequal relationship exists between the Ethiopian state and the foreign investors. As Ethiopia's push for industrialization has explicitly become FDI-oriented (Hauge, 2019; Staritz & Whitfield, 2019), the country has become more dependent on foreign investment to pursue its industrialization agenda. The government's consideration of foreign investment as the primary means to achieve its goals is illustrated through the generous incentives on the table for foreign investors. The incentives include, among others, income tax exemption for up to ten years, exemption from duties and other taxes on imports of capital goods such as machineries, spare parts, and raw materials, elimination of taxes on exports, subsidized land lease, guaranteed remittance of capital, and subsidized credit allocation for targeted sectors (EIC, 2020a).

There are of course a lot of reasons why investors prefer Ethiopia in addition to these incentives, especially when it comes to labor intensive sectors such as

apparel. The biggest factor is the presence of cheap labor. Ranging from $30 to $45 per month, Ethiopia offers the lowest wages for assembly operations in apparel and leather sectors, much lower than competitive destinations like Bangladesh and Sri Lanka, none of which have wages below $55 (Hauge, 2017, p. 168). The second factor is cheap utility services – especially low electricity and water costs (Whitfield, Staritz, & Morris, 2020). Thirdly, preferential access to US and EU markets as a result of US's African Growth and Opportunity Act (AGOA) and EU's Everything But Arms (EBA) initiative are important factors (Hauge, 2017, p. 169). However, a lot of countries provide some of the above too and what makes Ethiopia a preferred destination is also 'the government's proactive industrial policy' (Staritz & Whitfield, 2019, p. 704), accompanied by (until recently) a fairly low risk to investment because of stable political conditions (Hauge, 2017, p. 170).

However, the government's ability to attract investors through a combination of these factors is not matched by the degree of leverage it has over them. Unlike the elaborate policies attracting foreign investors to industrial parks – the policy framework for enforcing technology transfer and linkages is underdeveloped because of the absence of leverage. For instance, PVH Corp., the anchor firm for HIP, intends to create a vertically integrated value chain but mainly by convincing its own suppliers to invest instead of linking with domestic producers. A consultant for the company stated:

> …we don't want to buy locally produced. We want to encourage our global supply chain people to come here. There are too many risks when you start talking about second-tier suppliers in the supply chain….You have just to be so careful about who is supplying things that go into your product (PVH Consultant, quoted in Mamo & Llobet, 2017, p. 43).

Another example is how Chinese investors in the. EIZ lobbied to prevent a local policy change that would have required all textile and garment producers in the zone to engage in export production. As this threatened many Chinese manufacturers, they 'sent a collective petition letter to the Ethiopian government to resist the policy change' (Fei & Liao, 2020, p. 632). Thus, the Ethiopian government's capability in terms of designing institutions and incentive packages is not matched by its ability to demand reciprocity from investors.

The relationship of the state with the domestic private sector is the other side of the coin for learning and upgrading to take place. As Whitfield et al. (2015, p.

19) argues, while it is possible to implement industrial policy with foreign investors, long term transformation 'requires that the technological capabilities of domestic capitalists are nurtured and increased'. In the Ethiopian case, the relationship of the state to the domestic private sector is tricky. The EPRDF's relationship with the private sector has been characterized by the 'twin objectives' of ensuring that the private sector does not pose a challenge to its rule but also of mobilizing the private sector for its 'developmental state' agenda (Pellerin, 2019). However, these goals were taken as mutually exclusive and led to prioritizing control over developmental partnership, leading to the absence of embeddedness and symbiotic relationship (Pellerin, 2019). Clapham (2018, p. 1159) also argues the 'alliance between government and the domestic private sector' is lacking as the state looks towards FDI.

The above does not mean that the government has not made any effort to ensure that the private sector becomes a key player in its push for export-oriented manufacturing. The government has made it its strategic goal for foreign investment to contribute to learning of domestic producers by providing support targeting those interested in investing in the parks. The government dedicates 20% of park space for domestic investors (Arkebe, 2015a). The incentives for domestic investors include access to working and investment capital to be facilitated by the DBE and CBE which allows them to get a credit of up to 85% as well as preferential access to foreign currency (Mamo & Llobet, 2017). There is also a cost sharing program whereby the government shares the cost of trainings and the hire of expatriate staff to help domestic producers get access to specialized knowledge (Mamo & Llobet, 2017).

However, the domestic sector is also characterized by inherent weaknesses. The domestic private sector has been historically small and weak, with little experience in manufacturing and limited productive and managerial capabilities (Whitfield, et al., 2020). The private sector has focused on service and the domestic market which have higher and quicker returns compared to manufacturing (Mulu, 2019, p. 688). The domestic private sector engaged in manufacturing lacks experience in producing for export and thus lacks an understanding of what it takes to be competitive; for instance, strict delivery time and high standards in apparel production (Staritz & Whitfield, 2019, p. 712).

The combination of the government's ability to attract FDI but not demand too much reciprocity from it, limited embeddedness within the domestic capitalist class, as well as the inherent weakness of the domestic private sector does not bode well for the dynamic gains Ethiopia hopes to get out of industrial parks.

In terms of linkages, the hoped-for results have not materialized despite the abundance of factor endowments in the priority sectors. In apparel production for instance, despite the abundance of arable land suitable for cotton, most of the apparel producers investing in the industrial parks are dependent on imported textile because of quality problems in the domestic textile supply. At HIP, most of the fabric and other materials used for production come from outside Ethiopia (Barrett & Baumann, 2019, p. 4). Because the foreign firms investing in the parks are dependent on imported inputs and have minimal linkages, their 'territorial embeddedness', which is critical for upgrading, is weak.

Because of the difficulties in developing local textile and input suppliers, the government has started encouraging 'foreign investors to vertically integrate', meaning inviting their input suppliers to set up shop in the parks (Whitfield, Staritz, & Morris, 2020, p.14). The growth in export is thus largely driven by foreign firms, while domestic producers are conspicuously absent, indicating that transfer of knowledge and improvement of capabilities of domestic producers is not taking place (Hauge, 2017; Whitfield, Staritz, & Morris, 2020).

Labor challenges

In a piece titled 'Angry workers spurn Ethiopia's 'industrial revolution'', France 24 (2020) illustrates how underpaid and disillusioned labor might derail Ethiopia's push for industrialization. The impact of labor on the prospects of the industrial parks' strategy can be evaluated from three angles: skills and human capital development, social gains, and employment relations.

Developing a work force suitable for industrial transformation by cultivating the necessary skills is essential. In terms of formal education, there has been an aggressive expansion with a 100% primary schooling enrollment rate, significant rise in secondary school enrollment, and an expansion of universities from two to forty-five in two decades (UNDP, 2018). The number of students in higher education has expanded, reaching 750,000 by 2015/16, while a top-down allocation ensures that 70% are in science and technology (Taffere, 2019, p. 736). A massive technical and vocational programme has been launched with the aim of creating the technical skills needed in productive sectors (Taffere, 2019, p. 736). In addition, there are reports of investing firms in industrial parks providing on the job trainings, as well as sending their local technicians and managers abroad for trainings (Fei & Liao, 2020; Hauge, 2017). Finally, industrial parks, in cooperation with other actors, provide trainings on soft skills like time management.

However, several challenges remain in this effort to create an industrial work force. First, the expansion of education has been accompanied by a decline in

quality. Oya (2019, p. 11) argues that Ethiopia's skills gap 'remains substantial' considering the needs of a fast-expanding industrial sector as 30% percent of youth are still illiterate, while about 58% of rural women never attended school. Additionally, most of the workforce has no prior employment or industrial experience (Hauge 2017, p. 189). While foreign firms have sometimes invested on trainings, there are no signs of any attempt to relocate R&D activities (Hauge 2017, p. 188). As a result of an underdeveloped industrial culture, problems of 'timekeeping, understanding incentives, and reactive speed to boost productivity' are still prevalent (Oya, 2019, p. 7). Thus, while progress has been made in terms of developing an industrial workforce, gap remain, especially considering the pace of expansion of industrial parks.

The second element of the labor challenge is whether the jobs being contribute to a decent life for employees. As alluded to earlier, Ethiopia has staked its competitiveness on wage advantages, with no minimum wages set, and thus Ethiopian labor in the industrial parks are among the lowest paid in the world. This is compounded by the fact that many of the parks are in urban areas where the cost of living is higher. Housing has become a crisis, since most employees come from rural areas while companies in industrial parks are reluctant to engage in providing housing for fear of high standards required by buyers (Oya, 2019, p. 10). Studies on HIP found rights violations including forced overtime work for as little as $0.14 per hour, night shifts without adequate protection (leading to attacks on women employees), health and safety difficulties because nutritional deficiencies (with reports of employees fainting on site), unfair treatment, job insecurity and sexual harassment (Gifawosen, 2019, pp. 48-53; Barrett & Baumann, 2019).

This directly impacts the third element – employment relations – which has to do with whether there are 'voice' mechanisms in place for labor and what alternatives are employed in their absence. While the Ethiopian legislation for industrial parks states that the country's labor law applies in the industrial parks (IPP, 2015), which thus includes unionization, the reality has been different. For instance, Gifawosen (2019, p. 55) found that there are no worker's associations in all the studied companies at the HIP. Just like employers, the state is hostile to unionization of workers in the industrial parks as there is a fear of losing competitive advantage (Gifawosen, 2019).

In the absence of 'voice' mechanisms, workers response has been 'exit' (Hardy & Hauge, 2017). Thus, the major character of industrial parks has become labor turnover. For instance, in 2017/18, turnover at the HIP was around a 100%, meaning factories had to replace all their workers in that period (Barett & Bauman, 2019, p. 13). In addition to low wages and poor conditions, competition from other

industries like construction and services which pay slightly higher has contributed to high turnover rates (Hauge, 2017). This is compounded by the proximity of several employers in the zone making job-hopping relatively easy (Fei & Liao, 2020, p. 636).

High worker turnover, on the other hand, has an impact on the degree to which workers acquire skills and raises training costs for employers, which contributes to low productivity levels. At the HIP for instance, the turnover rate have had an impact on the ability to raise productivity, which means workers often fail to keep up with 'the swift tempo of the belt-and-rail system', thus 'causing production lines to shut down temporarily' (Barrett & Baumann, 2019, p. 11). This 'leads to missed deadlines and delayed delivery of products' (Barrett & Baumann, 2019, p. 11). This is a significant threat as global buyers are not only interested in quality and cost but also reliability in terms of delivery of products. Thus, turnover affects productivity, quality, delivery time, and other standards that firms must meet to successfully participate in the export market.

Conclusion

This paper sought to illustrate the evolution of Ethiopia's experiment with industrial parks as a component of its industrial policy. In the post 1991 period, Ethiopia registered impressive economic growth under the EPRDF regime guided by a clear ideological vision aimed at socio-economic transformation. The state played an active role in 'governing the market' by rejecting the liberal night-watchman role – actively developing industrial development strategies to guide development efforts, directly participating in production through SOEs, heavily investing in infrastructure and manpower, and strengthening its bureaucracy.

The experiment with SEZs developed in an experimental manner but ultimately become the central element of the country's industrial policy. An extensive process of policy, legal, and institutional development took place over a decade to guide the development of Industrial Parks with the goal of becoming a manufacturing hub in Africa by 2025. The SEZ program has progressed rapidly aimed at expanding manufacturing jobs and exports as well as nurturing dynamic gains by inducing demonstration and competition effects, technology transfer, linkages, and upgrading.

Despite this ambition, Ethiopia's experiment with industrial parks faces two dilemmas. On the one hand it must be exceptionally favorable to foreign investors as the global competition for FDI is high, but that very reason prevents the state from disciplining capital for developmental goals. On the other hand, it depends on low-paid workers, whose poor working conditions and frustrations might end up

disrupting the experiment. Thus, achieving the dynamic gains might require the state to continue to fine tune its industrial policy by drawing upon the tradition of policy learning observed in the development of the industrial parks. While there are no easy fixes for these structural challenges, the following measures can be taken to improve the possibility of success:

- ⇨ While raising pay for industrial park workers is difficult in the short term, the government can improve its regulatory framework for worker protection to reduce harassment and rights violations as well unsafe working conditions. This will have an impact on turnover which has become the primary obstacle for learning and improved productivity.
- ⇨ Focusing on local raw materials to improve quality and quantity of supply is essential if backward linkages are going to develop. At the moment, foreign investors are wary of sourcing locally because of quality problems as well as lack of sustainable supply.
- ⇨ One major challenge for absence of technology transfer is the weakness of the domestic private sector. Creating forums for domestic private investors within the manufacturing sector to learn from the experiences of foreign investors as well as from abroad through experience sharing so as to improve their competitiveness is essential.
- ⇨ Progressively demanding reciprocity in terms of linkages and technology transfer from companies that have invested a lot is essential. While a lot of concessions have to be made to attract foreign investors, established ones are more likely to reciprocate since they have invested in setting up and running production facilities.

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