

AN ECONOMIC DEVELOPMENT STRATEGY FOR ETHIOPIA

( A Comprehensive Guidance &  
A Development Strategy for the future)

Ministry of Planning &  
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## I. INTRODUCTION

Although Several arguments may be advanced regarding the economic backwardness of our country, the major reasons are to be found in the forms of political and economic organization under past systems, the division of power and leadership quality, and the economic development strategies and policies stemming from such systems. With a view to raising the standard of living of the population and in order to do away with the problem of economic backwardness through a process of national economic reconstruction, the Transitional Government has taken a series of measures. Among these are the emergency recovery and reconstruction program and the economic policy of the transition period, the latter constituting the basis for the preparation of a detailed economic reform program which is presently being implemented. The establishment of national regional administrations with full autonomous power to manage regional economies, and, in the context of their relationship with the central government, is an additional measures that have been taken to alleviate the economic problems of the country.

As has been explicitly stated in the economic policy, not only are the country's economic problems deep-rooted but they are also structural and do not lend themselves to short-term solutions. Therefore, they would require the formulation of a long-term strategy. While the main purpose of the long-term development strategy is to revive and strengthen a chaotic and debilitated economy, the objective is to bring about a structural transformation in the productivity of peasant agriculture and to streamline and reconstruct the manufacturing sector, so that it makes extensive use of the country's natural resources and manpower. This strategy is known as Agricultural-led

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Industrialization and has its origin in the economic policy which states "...adopt an overall industrial development orientation that is based on agriculture, that makes an extensive use of the country's natural resources and that contributes to an inter-dependent development of the agricultural and industrial sectors". Because of its manpower requirements, this industrial development strategy will open up employment opportunities, in addition to expanding the domestic market for goods and services, thereby creating an enabling environment for the attainment of long-term economic objectives.

The reason for bringing up the strategy at this juncture is not to go into details but rather to present the basic concepts underlying the strategy and that would have to be addressed at the outset. These are: What does the strategy mean? What strategy did Ethiopia pursue previously, and what were its strengths and weaknesses? What is the essence, and the relationship to the economic policy during the transition, of Ethiopia's new development strategy? Why has it been necessary, etc. In what follows, an attempt will be made to explain these questions as well as the basic concept underlying the new development strategy.

The development strategy to be formulated can attain its objectives only if it is conceived in the context of detailed investment programs and development priorities and if it is consistent with them. While such programs and development priorities are to be expounded in sectoral strategies and medium- and long-term economic development plans, an attempt has been made here to present a broad overview of the strategy. Finally, since any strategy would have to incorporate modalities for its implementation, that is, who will implement it, who will monitor it, etc. as well as the instruments and mechanisms for its implementation, these issues have also been addressed in the last part of this paper.

## II. WHAT DOES STRATEGY MEAN?

A strategy refers to a plan for attaining a given objective. It helps in the implementation of a long-term objective of a limited nature. It is not a self-contained objective or policy. Neither is it a basic objective by itself. It does not present a country's detailed development plan. The general purpose of a strategy is to provide an all-embracing framework and ways and means for attaining given objectives. An economic strategy is an instrument for helping attain the objectives of a basic economic policy. It answers such questions as which plans would fit a given economic structure, and provides guidance for implementing an economic policy that has already been formulated. It helps evaluate and decide on the appropriate plan for an economy. Such an economic strategy should help implement a given economic policy. In general, a given strategy should incorporate such elements as an objective, the means or instruments for the attainment of the objective, as well as indicate and incorporate all the essential elements that would have to be adopted in the course of implementing the strategy.

## III. THE RELATIONSHIP BETWEEN ETHIOPIA'S ECONOMIC DEVELOPMENT STRATEGY AND POLICY

As mentioned earlier, the strategy for Ethiopia's economic development emanates from the country's economic policy and there is an organic link between the economic policy and this strategy. The strategy provides a long-term perspective and a framework for achieving the basic issues addressed in the economic policy, prioritized and indicates the best course of attaining them. This becomes more explicit if seen in the light of the objectives and basic issues of the economic policy of the transition period of November 1991.

Ethiopia's economic policy during the transitional period explicitly states that the overriding objective should be the replacement of the command economy by an economic system driven by market forces and points to the need for the formulation of an appropriate economic development strategy for attaining this cardinal objective. The second major objective and issue of the transitional economic policy is the enhancement of popular participation in economic activities and decision-making processes by ensuring the control over resources by regional authorities. This has been expressed clearly in the economic policy which states, in part, "...the people would have a decisive role in national economic reconstruction and national regional administrations will participate in the management of the economy...". This strategy was conceived and formulated in recognition of the leading role to be played by the population and national regional administrations in the economic development of their respective regions.

The third major issue of the economic policy is that it pinpoints the underlying factors for the progressive decline and collapse of the economy as being inherent in the structure of the economy itself. These include the inability to attain self-sufficiency because of economic backwardness, the dependence of manufacturing industry on imported inputs, including spare parts and raw materials, and the absence of firm links and interdependence among various sectors of the economy. The policy points to the need for transforming the existing economic structure and this precisely is the aim of this strategy.

The fourth basic concept of the transitional economic policy is an issue that comes up frequently, though not in conjunction with a strategy for economic development. This issue relates to agriculture which is a source of employment for the bulk of the population, but farming in particular should be accorded the priority it deserves, not only because it constitutes the

foundation of the national economy, but also because:

- the sector would have to be put on the right track in order to raise the living standards of the population;
- agriculture is decisive for attaining food self-sufficiency, for employment creation, for providing market for domestically-produced goods, for generating foreign exchange, for the availability of raw materials, etc;
- agriculture should be the starting point for initiating the structural transformation of the economy, as has been amply demonstrated in the economic policy.

Under the sub-title "Providing Special Support for Peasant Agriculture", the transitional economic policy stresses the need for the state to extend sizeable assistance for rehabilitating peasant farmers and pastoralist, to expand the construction of rural roads in order to help them obtain fair prices for their produce, to expand the distribution and use of fertilizers and improved seeds; to increase extension services both for peasant farmers and pastoralist, etc. This manifests that peasant farmers and pastoralist constitute the cornerstone for launching the strategy.

The fifth point which is central to our economy is ensuring links between the various sectors of the economy. but particularly between agriculture and industry. Agriculture would have to provide the requisite raw materials for manufacturing industry in order to reduce dependence on external sources. But it would also have to provide marketing and employment opportunities and play a key role for bringing about improvements in the well-being of the population.

Although technological dependence and reliance on external sources for raw materials and spare parts stand out as the major constraints of our economy, it is unlikely that this dependence will be done away with, given the extreme backwardness of agriculture which constitutes the backbone of the economy. Therefore, the transitional economic policy points to the need for formulating a strategy that would help establish close links between agriculture and industry in the interest of promoting mutually-supportive development.

Yet another source of the strategy is the sixth key element of the economic policy which points to the need for expanding the frontiers of production, both in quantity and quality, for attaining foreign exchange. As stated in Ethiopia's economic policy during the transition, "It is essential to increase and diversify exports, to ease foreign currency shortages, and administrative inefficiencies and minimize the problem of illicit trade." The strategy will promote the establishment of links between agriculture and industry, the development of industrialization based on domestic resources, the creation of a favorable environment for the development of appropriate technology, the expansion of the domestic market, etc. the need for increasing the availability of foreign exchange as an economic strategy is not a new economic concept. Rather it elucidates the objective of the economic policy pertaining to this issue, provides a framework for implementation of the priorities, and in general, contains valuable guidelines. The strategy should only be considered as an indicator of long-term economic objectives and as a banner behind which to advance for the attainment of those objectives.

#### IV. AN ECONOMIC DEVELOPMENT STRATEGY FOR ETHIOPIA

As everyone knows, Ethiopia's economy is backward. Although several factors account for the country's economic backwardness, they can all be subsumed under two major headings.

- a the war which resulted in protracted strife and
- b the topsy-turvy development priorities resulting from the inappropriate economic development strategy and policy under past systems.

These are the two major factors that have, for a long time, submerged the economy in an abyss and that continue to be responsible for the dismal economic performance. No one can question the relevance and usefulness of an economic development strategy and priorities. What may be debated about a development strategy and priority is the nature and content of the strategy, the span of time it covers, etc. The absence of a strategy is an indication of the lack of concrete objectives. But even when there are apparent objectives, the absence of a strategy is an indication of the lack of a firm commitment for attaining them.

This Chapter will focus on an economic development strategy and overall priorities. It will first address such basic issues as: what should an economic development strategy be in our country? What should it look like, etc.? And based on answers to such leading questions, the second major question that would have to be answered relates to the nature of development priorities.

##### 1 An Economic Development Strategy:

By development strategy we mean a long term plan specifying the general objective, the priorities, the different phases of development, the arrangements to be made for organizing the necessary forces for its fulfillment, and the major policies and

measures to be adopted. It is a plan mapped out on the basis of an assessment of the various factors and conditions of economic development, and of its various aspects that will affect the economic situation as a whole.

The importance of a long-term development strategy at present need not be emphasized. A long-term strategy covers a period of up to two decades. As noted earlier, what may be questioned is not the relevance of such a strategy, but rather its nature and contents. The relevant question here is the form and contents of such a long-term development strategy covering a span of 20 years. This is a basic question that would require an answer.

It is all too clear that the Ethiopian economy faces a basic problem, that the problem is deep-rooted and that it is structural in nature. Structural problems cannot be resolved in the short and medium-term and would, of necessity, require a co-ordinated, long-term strategy. Such a long-term development strategy would have to review and appraise all the strategies of previous years, including the difficulties and problems that they gave rise to or that had been encountered. Before delving into the major issues, that is, the basic problems and weaknesses inherent in those strategies, their forms and contents should be scrutinized. This would be as relevant as it would be useful.

#### 1.1 Earlier Experiences of Economic Growth and Performance:

Any reference to Ethiopia's past economic development will take us back to the 1940s and 1950s. By and large, the Ethiopian economy may be said to have opened up to the rest of the world soon after the conclusion of World War II. This situation created an export-led development. In conjunction with the growth of exports, the gross domestic product (GDP), the industrial and services sectors made up only 12 percent and 23 percent, respectively, of GDP.

At that time, the major components of the country's export trade were hides and skins, and coffee. An increasingly large area of agricultural land was brought under cultivation for producing crops destined for the export market. Much of the physical infrastructure, especially the expansion of the road network, was linked to the growth of foreign trade. Up to 1960, the Ethiopian economy may be said to have opened its doors to foreign trade. However, this did not continue for long. Since the early 1960s, there were restrictions on foreign trade. In order to protect and strengthen the fledgling infant industry, successive tariffs were imposed on import trade. With the introduction of successively higher tariffs, there were corresponding increases in budgetary revenues from this source. Although there were increases in revenues, there was a gradual change of course by the export-led economy because of excessive preoccupation with import-substituting industries which led to fundamental changes in the direction of economic growth. As a result, there were increasing restrictions on the relationship of the Ethiopian economy with the rest of the world. This, in turn, led to balance of payments problems and created the conditions for further controls and restrictions on foreign trade and therefore reductions in foreign exchange earnings. This happened towards the latter part of the 1970s and continued well into the 1980s when there were sharp drops in exports. On the other hand, the import-substitution strategy which replaced the earlier development strategy was not particularly noted for bringing about meaningful economic expansions or benefits. This may be observed from the growth of GDP which was considerably higher than the rate of population growth in the 1960s but which dropped below the rate of population expansion in the 1980s.

While export trade acts as an engine of growth by providing outlets to external markets for domestic products, an import-substitution strategy plays similar role by absorbing an already created internal market. In import-substitution strategy the size

of the domestic market is crucial for determining economic growth. Both strategies are based on needs, the difference being that one is oriented towards the needs of external markets and other on the needs of the domestic market. As pointed out earlier, because of the decline in export trade arising from the restrictive policy, it was not possible to expand the production of export crops and attain higher rates of economic growth. On the other hand, while the effort for expanding domestic manufacturing industry on the basis of the import-substitution strategy did succeed in making limited contributions to growth in the 1960s, it has since made no meaningful contribution to the country's economic development. This was partly because the small domestic market quickly became soaked up, but was mainly due to declining exports which resulted in deteriorations in the balance of payments, acute shortages of foreign exchange and mounting international obligations. In general, the cumulative outcome of switching from the first strategy to the second was that the second strategy, that is, the import-substituting strategy, was rendered weak because of its exposure to diverse problems and therefore ineffectual in terms of its contribution to economic growth.

It would be important to mention here the international economic environment which also contributed to a worsening of the country's economic problems. Since 1970, adverse developments in the international economic situation have had a profound and deleterious impact on developing countries such as Ethiopia. World petroleum prices sky-rocketed, first in 1974 and then in 1977/78, as a result of which the developed countries increased prices of manufactures in order to compensate for increases in petroleum prices. On the other hand, world commodity prices for products such as coffee and cotton tumbled, and developing countries such as Ethiopia became price takers for commodities they bought and sold with no influence on prices. In addition, uncertainties around the international financial market gave rise to rocketing inflation which was transmitted to countries such as Ethiopia. These

developments aggravated the problems of the Ethiopian economy and nullified the impact of the economic development strategy pursued by the country, particularly because the strategy did not incorporate alternatives that would enable it to avert or withstand the adverse medium-and long-term consequences of global economic fluctuations.

#### 1.2 Achievements, Flows and Problems of the Past Development Strategies.

So far, an attempt has been made to present two basic development strategies adopted by the country since World War II. These were, first, an export-oriented strategy, and second, an import-replacing development strategy in conjunction with manufacturing industry. At this point, it would be appropriate to examine the negative consequences on the structure of the economy of these strategies, particularly the import-substitution strategy. Both in terms of output and employment, the structure of the Ethiopian economy has been far from being satisfactory. The contribution of manufacturing industry to GDP continues to be stunted and its rate of growth slow. The manpower deployed in the sector as well as the employment opportunities it has created are negligible and are bound to remain so if the existing trend is allowed to continue. In the past 30 years, the contribution of manufacturing industry to GDP rose only from 12 percent to 17 percent, and industrial output from 6 percent to 11 percent. On the other hand, the contribution of the services sector to GDP recorded a substantial, albeit and undesirable, increase --from 23 percent to 42 percent. The share of agriculture in GDP dropped from 65 percent to 41 percent--a pattern that does not conform to the experience of developed countries. The observed pattern of growth does not imply structural changes but reveals, rather, the stagnation of agricultural production.

A look at the employment and distribution of manpower in the

last 30 years shows that, while there have been no perceptible changes in industrial manpower, which has remained at around 5 percent, there have been some changes in agricultural employment which declined from 90 percent to 85 percent. On the other hand, the employment of manpower in the fast-growing services sector increased from 5 percent in the early 1960s to 10 percent in the early 1980s. The major factor accounting for such an increase was the burgeoning bureaucracy under the previous administration.

Thus while, on the one hand, there has been an unhealthy growth of the services sector, on the other hand, there have been serious lags in the two major sectors, namely, agriculture and industry. With respect to agriculture, this has been due to certain deep-rooted problems, such as backward technology, overpopulation in the highlands and excessive pressure on available lands far beyond their carrying capacity, and the resulting decline in productivity. The agricultural potentials of the lowlands have not been tapped because of the absence of physical infrastructure in these regions.

The rate of growth of industry, particularly manufacturing industry, has for a long time, remained at low levels, the major reasons being the small size of the domestic market and balance of payments problems. It can be said that the size of the domestic market was never adequate to contribute to industrial expansion. This was because of low levels of economic growth, low purchasing power because of low incomes on the one hand, and on the other, because of capital intensive technology which left little room for employment creation and consequently opportunities for generating incomes. Therefore, the possibility for expanding the domestic market was very limited. In theory, investment in capital-intensive technology raises productivity, savings and investment which, in the long run, create employment opportunities. This theory has not been proved in other developing countries, and is yet to be proved in Ethiopia.

The disappointing performance of industry may be looked at from another angle as well. Both capital goods and much of the raw materials utilized by the sector are all imported. This shows that, to the extent that it depends on imported inputs, the sector is dependent on the external sector. A look at the final output of industrial goods shows that the value added is minimal indeed. Perhaps this is why it is said that it would be more proper to incorporate the industrial sector into the services sector, particularly trade. Manufacturing industry suffers from other drawbacks as well. Because of dependence on the external sector and because of its weak linkages with other sectors of the domestic economy, its contribution in terms both of employment creation and overall output is insignificant.

In general, because of its dependence on capital-intensive technology and imported inputs, the industrial sector has not been able to make use of the abundant manpower, and has failed miserably in building up and expanding the domestic market which would have otherwise fueled its own growth. Because of these reasons and shortages of foreign exchange, lack of spare parts and raw materials, the industrial sector had, let alone provide for its own expansion, been operating far below capacity in the 1980s. The cumulative effect of all this is that, rather than act as an engine of economic growth, the import substitution strategy has failed to sustain even the industrial sector itself, so that we find ourselves to-day at the very bottom of an economic abyss.

Because of the excessive centralization of past development strategy, the distribution of wealth among regions was highly skewed and lopsided, the overall development of the country's economy as well as development between regions was unbalanced, and the various regions had no control over their resources and therefore no responsibilities for economic activities in their respective regions. In contrast, economic activities (e.g. manufacturing industry) and social services are concentrated in

only two cities, namely, Addis Ababa and Dire Dawa and there are major differences between the urban and rural areas in the distribution of such services as education, health and water supply.

The above analysis and assessment of past attempts towards economic progress clearly shows an experience of contemptible failure in launching the economy on a path of sustainable growth and development. Viewed from another angle, it is this very process which acted as a shackle on the scarce factors of production and kept the population in the depths of poverty leading a life of misery and extreme wretchedness. Therefore, it goes without saying that the situation must change. Looking ahead into the long-term future over a span of 20 to 30 years, we note that there is a major problem looming ahead. As mentioned earlier in conjunction with agriculture, this is the specter of accelerating population growth. The size of the population accelerated rapidly from 18 million in 1960 to 51 million in 1991. It is expected to accelerate to a staggering 159 million by the year 2025. Unless employment opportunities are created in non-agricultural sectors, agriculture alone cannot support the growing labor force. It is bound to exacerbate existing problems in the sector and threatens prospects for future development which appear dismal. There is bound to be further fragmentation of holdings; it threatens the possibility of technological progress in the sector. However, unless there is a technological transformation in agriculture, economic progress in Ethiopia will for ever remain a myth. Therefore, it would be crucial to make sweeping changes in past development strategies and orientation, to restructure the economy, and to design a new, long-term economic development strategy.

### 1.3 A Development Strategy for the Future:

When formulating an economic development strategy for a country, the immediate question that comes to mind is the

objectives of such a strategy. In our case, the fundamental and long-term objective is to transform the existing chaotic and weak economic structure to one that is robust and enduring. From a history of economic development of developed countries, we learn that, during the early phases of development, economic development was dominated by agriculture, followed by industry and then the services sector at their present stage of development. It should be noted here that what is important is not only the shifts in the changes of each sector in total output, but also the overall growth of the economy, as well as the growth of each sector. In other words, the declining shares of some sectors in total output did not imply declining outputs in these sectors, since changes in the proportion of output were linked to overall economic growth.

As set out in the transitional economic policy, this also is our very long-term objective; nothing more and nothing less. The existing economic structure would have to change in such a way that, after some time, the share of agriculture in total output will begin to decrease and the shares of industry and the services sector will increase. In particular, the rate of growth of the industrial sector would have to be high enough to enable it create employment opportunities; there should also be sustainable growth in the other economic sectors as well. While such structural transformation can only be brought about gradually and over a long period of time, the immediate focus would have to be on agriculture. This is because agriculture would have to first attain high rates of growth in order for the other sectors to attain sustainable growth and for the process of structural transformation to be realized. It is only when that growth in all sectors will be accelerated for quickening the realization of the envisaged structural transformation.

Economic development and structural transformation should not be considered as an end in themselves. Depending on the conditions prevailing in a given country, there are sub-objectives of

development that would have to be achieved in the process of structural transformation. In the Ethiopian case, there are three inter-related objectives. These are:

- a) sustainable economic growth;
- b) equity, including regional equity; and
- c) self reliance, meaning dependence on national resources and independent national development.

The relevant strategy that will help us attain the objectives enunciated above is based on improvements in the productivity of peasant agriculture; but it is also based on an industrial development strategy that makes extensive use of the country's natural resource base and locally available manpower on a sustained basis. This strategy is known as Agricultural-development-led Industrialization (ADLI). The strategy embraces the export-led development strategy as an engine of growth, incorporates a parallel and coordinated development of agriculture and industry and is, therefore, a development strategy that is infused with vitality.

The strategy exercises and energizes all organs of development and creates favorable conditions for a coordinated and mutually-supportive development of agriculture and industry. It is a dynamic and self-propelling process that progresses under its own momentum. It gradually grows robust and enables us to attain our long-term development objective. Looked at in this way, the strategy has two main parts, or components. The first may be referred to as the external sector and is the export-led part of the strategy. The second, or the internal sector, is the agricultural-led industrialization component of the strategy referred to earlier.

It is obvious that agriculture has, up until now, constituted the basis of our foreign trade. In future, mining should also be

expected to play a major role. Mining would require enormous investments. Providing adequate investments are made in the sector and if these bring about growth in the sector, it can make substantial contributions in support of the export sector. This means that an export strategy that is based on the mining sector will help us attain our objectives by bolstering the agricultural-led industrialization strategy. If adequate investments are made in the sector and once it attains a certain level of development, earnings from exports of mineral products could be considerable. Unlike agricultural commodities, mineral products may not be vulnerable to violent fluctuations in commodity prices. Again, unlike agricultural commodities such as coffee and cotton, mineral products could be available for the export market in a shorter time, provided certain conditions are fulfilled in advance. Storage, transportation, etc. of mineral products are also more convenient and efficient than for agricultural commodities. Therefore, since the mining sector can have a positive influence on economic growth, but also in the interest of promoting interdependence and enhancing linkages between sectors of the economy, the government would have to take certain measures that would boost the production of minerals and increase exports. This is in support of the objectives of the agricultural-led industrialization strategy.

Here, one may ask the question why such a strategy has been chosen to the exclusion of possible alternative strategies. There indeed are a number of alternatives, namely, an industry-led industrialization strategy, an import substitution strategy and an export-led industrialization strategy. However, not only have these strategies met with failure, but on the basis of conditions obtaining in our country, the first alternative in particular cannot be a viable alternative. Therefore, the agricultural-led industrialization policy has been chosen as a strategy that is more consistent with existing conditions. This strategy will not only avert the problems mentioned earlier but would:

- . have, as its focus, the bulk of the population;
- . constitute a basis for the task of structural transformation; and
- . lay the foundation for self-sufficiency.

An agricultural-led industrialization strategy would also help to reduce dependency and would be a redeeming strategy for an economy in tatters. This does not mean, however, that an export-led strategy and an import substituting strategy are altogether useless, that they are unnecessary. The real issue is how to harmonize them and optimize their contribution to economic development. An agricultural-led industrialization strategy fulfills precisely this objective.

So far, we have been looking at future long-term development strategies, that is, an agricultural-led industrialization strategy in general. What does this strategy look like when desegregated by sectors? It would be necessary to look at the strategy as broken down into major sectors: agriculture, industry, mining, population growth, technological progress, economic and social infrastructure, etc.

### 1.3.1 Agricultural Development Strategy:

Under the prevailing conditions in our country, the above strategy will have, as its focus, the development of the agricultural sector. Agriculture can develop only with improvements in the productivity of peasant farmers and pastoralist, and if large-scale farms are established, particularly in the lowlands. Agriculture can contribute to economic growth in two ways. One is the supply side and the other the demand side. On the supply side, it provides export products, food and industrial raw materials. On the demand side, it aids industrial expansion by providing market for domestically-produced goods. So far, the contribution of agriculture to economic development was

confined to the supply side. It played no significant role in providing market outlets. However, with advances in industrial development, the sector should be expected to increasingly play a leading role and enhance its contribution to overall economic growth.

What development priorities should be adopted for agriculture to attain satisfactory growth and be effective in playing the above two roles? This is a question that merits an immediate answer. According to the strategy that has been formulated, the development of agriculture may be viewed in three sequential phases. During the first phase, there would have to be major improvements in traditional agricultural practices; here, the use of improved seeds would be crucial. It is believed that considerable potentials exist for improving traditional agricultural practices. This is evidenced by the existence of marked differences in productivity between regions as a result of differences in improved practices. Even where productivity is high under traditional methods, it would be possible to attain further significant improvements in productivity with less cost. The second phase includes small-scale irrigation schemes, the expansion of agricultural infrastructure and modern technological inputs, such as fertilizers, pesticides, etc. The third and last phase is the employment of the expanding rural labor force in non-agricultural activities, there by increasing holding sizes for rural families.

The first and second phases of the strategy will increase output and productivity on lands already under cultivation. Increases in output on family holdings will be determined by the growth or productivity as well as pressure on lands because of population growth. Although the first two phases of the strategy for agricultural development are expected to bring about increases in output and productivity, it is only the third phase that can ensure sustained agricultural development. This level of development can be attained only when there is accelerated

industrial growth and after the first two phases of the strategy.

Reliance on market forces alone will not be adequate for accomplishing the above three-phased strategy and for the sector to effectively play its roles as a source of supply and demand creation mentioned earlier. Up to a point, the sector would need support from the state in terms of policy intervention and resource allocation. In addition, both those who receive services and those who provide such services would have to be organized to ensure productivity and efficiency. Peasant farmers and pastoralist would have to be organized into cooperatives in order to protect their interests. Strengthening national regional administrations and promoting the participation of the rural population in development activities is decisive for agricultural development and would have to be pursued with steadfastness. Peasant farmers and pastoralist have to be provided with extension services, tools and implements, credits, infrastructures, etc. in order to increase their productivity. Agricultural research would have to be strengthened and expanded. Above all, concerted efforts would have to be made to ensure that all activities related to agricultural development should, if they do not contribute to environmental development, at least avert environmental damage. This is in the light of the renowned conservation based Agricultural Development strategy which has no alternatives and which alone is suitable for the agricultural development of our country.

### 1.3.2 Industrial Development Strategy:

Contrary to the repeated assertion that the export sector would be decisive for the country's economic development, experience shows that the growth of industry is linked much more closely to the expansion of the domestic market rather than the export market. The crucial question here is how can the domestic market grow? The rate of growth and levels of income are of critical consideration for the expansion of the domestic market.

Therefore, industrial development would have to focus on investments that would increase incomes. In this respect, the best alternative would be the promotion of labor-intensive technology and the utilization of domestic raw materials. According to this strategy, the industrial sector will create the conditions for creating markets for its own products, mainly consumer goods, and to some extent, capital goods. While agriculture constitutes the primary market, the services sector should not be ignored as a market for industrial products.

An issue that must be considered here is the composition of industrial output. An industrial development strategy that is based on the use of domestic labor and raw materials with the objective of expanding the domestic market means that the sector should produce a range of products that would be in demand. Appropriate technology should go hand in hand with an appropriate range of products. We can only say that industrial products would be in demand when we can get an answer to such question as what types of products should be produced and for whom. To the extent possible, the composition of industrial output should be determined by the needs and income levels of the population. The market for industrial products should be a market founded on the needs and incomes of the majority of the population.

Neither technological development nor product composition can come about by relying on market forces alone. Certainly, market forces have a role to play for the growth of the economy. However, by themselves, they are not enough for creating the economic structure envisaged here. While market forces favor short-term profits, the choice of technology may not be appropriate to the needs of the economy. Therefore, in order to put industrial development on the right track, the government would have to intervene in a positive way. The private sector should be motivated to choose labor-intensive technology that makes extensive use of domestic raw materials. This also provides an impetus for

the expansion of cottage and small-scale industries.

Having discussed the strategy for industrial development, one question remains to be answered, that is, the extent of its contribution to overall economic growth. Industry can contribute to economic development in at least two ways. First, industrial development will create employment opportunities for redundant labor in both urban and rural areas. Second, it provides an expanding market for other sectors of the economy. It is this very process and linkage which brings about a structural transformation of the economy.

### 1.3.3 The Mining Sector:

It was mentioned earlier in conjunction with agricultural-led industrial development strategy, exports would be the engine of growth. In order for the export sector to play the role expected of it, it would be essential to strengthen the mining sector in addition to agriculture. While there are favorable prospects for the exploitation of minerals such as gold and natural gas in the medium term, there may also be other minerals, such as petroleum, that may reinforce the development of the sector and contribute to overall economic growth. The development of these minerals would also mean considerable increases in revenues. It is important that such revenue be ploughed back into investments to promote growth and as an instrument for attaining the objectives of the strategy.

In general, and based on geological investigations, it would be necessary to undertake a coordinated action regarding mineral exploration, exploitation and development, to upgrade existing technology, to replace imported raw materials with domestic production, and to carry out exploration of minerals that will support the development of sectors of the economy such as agriculture, industry and construction.

### 1.3.4 Population Growth:

The country's population is expected to reach 159 million by the year 2025. Such staggering population growth poses a challenge for attaining desirable levels of growth and for improving the standard of living of the population. It is a problem of major concern. In the next 20 years the rate of population growth should be reduced. Since it will take several years for the measure we are taking to-day to bear fruit, the population issue cannot be postponed, in the light of which a population policy has already been issued. What remains is to translate the policy into action and to closely monitor its implementation. Besides, since the country's major resource is its manpower, concerted efforts should be made to design policies for utilizing it productively.

### 1.3.5 Science and Technology Policy:

Nearly all the country's technological requirements are met from imports. This means that the development of science and technology is linked with the outside world. The only chances available to us are to adapt ourselves to the technology and try to use it effectively. While the choice and application of appropriate technology is important, it would be even more important to conduct extensive research for the development of science and technology, to nurture and develop locally-available technologies and to popularize their application.

Economic growth, particularly the acceleration of agricultural and industrial development, would require the application of modern technology; it requires an intensive and extensive development of knowledge and skill, both in quantity and quality. In this respect, the role of research and training will be crucial. Plant managers and workers should both be provided with formal and informal training in order to raise their skills. Formal training would have to be of high standards and be consistent with the needs

of the economy. It would have to produce scientists and technicians and lead to constructive technological transformation. The informal training should have close links with economic development activities and would have to be flexible. This form of training will be particularly useful for the industrial sector whose need for modern technology is vast and insatiable.

#### 1.3.6 Economic and Social Infrastructure:

The economic development strategy envisaged will also give priority to the development of infrastructure, consistent with agricultural and industrial development. In regard to economic infrastructure, the aim is to encourage commerce by reducing unnecessary transportation costs. The country would have to attain self sufficiency in construction materials, particularly cement and iron. For promoting industrialization and eliminating dependency on fuel wood at national and regional levels, all sources of energy should be developed.

It was pointed out earlier that the long-term objective of the agricultural-led industrialization policy would be to bring about a structural transformation of the economy by bolstering growth in agriculture, industry and services. Economic development and structural transformation inevitably lead to urbanization. Overall economic growth and urbanization are processes that would have to go hand in hand. Urbanization should not be undertaken in an haphazard manner because it leads to undesirable social and economic problems. Therefore, a system of town planning should be introduced with focus on residential housing, energy, water supply and sewerage services.

Social infrastructure such as health and sanitation, education and water supply will also be undertaken within the framework of the agricultural-led industrialization strategy. Priority will be given to elementary education and basic health services. Higher

education will be strengthened in terms of standards and quality and will be linked with production for reinforcing the objectives of the strategy.

Human resource development is a major issue that must be highlighted when talking about economic and social infrastructure. This issue has already been touched upon when discussing population growth, science and technology, education and health. Since human resource development is integrated into, and is subsumed under, other sectors of the economy, it should not be neglected and should be given priority in all development endeavors. Since the population is the ultimate beneficiary of all development endeavors, and since growth is the outcome of the effective utilization of skilled manpower, the issue of manpower development is of paramount importance.

It was pointed out earlier that it would be important to have a prioritized set of activities for attaining the objectives of the strategy. What has been presented so far is only a broad and long-term strategy for overall growth and for sectoral economic development. What follows is a comprehensive and detailed priorities of development that are consistent with the strategy. As stated earlier in the introduction, details pertaining to development priorities will be articulated in sectoral strategies as well as in short-and medium-term plans of economic development. Only a profile of investment programs and development priorities have been presented here.

## 2. Investment Programs and Priorities:

The basic guideline for development priorities is the long-term development strategy presented earlier. Clearly, any strategy would have to set out its own investment programs and priorities. One issue would have to clarified before presenting the development programs and priorities of the basic strategy. This relates to the

depth and breadth of the investment programs considered here. The programs do not include all sectors that contribute to economic development. Only major investment programs that emphasize the link between the underlying strategy and sectoral strategies have been presented.

Following are the major investment programs and development priorities of the strategy.

#### A Export-led Growth

This will be shown under agriculture, mining, industry and tourism sub-sectors.

##### A.1 Agricultural Sub-sector:

- i develop the export market;
- ii encourage improvements in the quantity and quality of export products;
- iii develop infrastructure and expand agricultural services.

##### A.2 Mining Sub-sector:

- i investment in minerals such as gold and those with promising prospects;
- ii encourage the study, exploration and development of minerals such as iron deposits, construction materials, industrial and agro-minerals.

##### A.3 Industrial Sub-sector:

- i conduct studies of foreign markets and expand them;
- ii encourage exports of manufactures based on domestic raw materials.

#### A.4 Tourism Sub-sector:

- i advertise and promote the country's tourism potentials
- ii improve upon and expand tourism facilities;
- iii preserve historical relics and wildlife.

#### B Agricultural Sector

Programs under this sector include those that enhance food self-sufficiency and increase the production of raw materials.

##### B.1 Food Self-sufficiency:

- i improve farming methods and practices in marginalized regions and regions exposed to drought by introducing terracing bunding, expanding irrigation schemes, afforestation, producing forage crops, pasture management and the improvement of draft animals usage;
- ii improve productivity in surplus producing regions and high potential areas by introducing modern technology in addition to the measures mentioned under (1) above;
- iii improve breeds and raise productivity per head of cattle.

##### B.2 Production of Raw Materials:

- i improve the quality of hides and skins;
- ii increase the production of raw materials for factories producing textiles, containers such as

sacks, tobacco, food and beverages; edible oil, spaghetti, diary products etc.

- iii increase the production of agro-industrial raw materials.

### B.3 Natural Resources Preservation and Development:

- i prevent soil erosion;
- ii safeguard flora and wildlife;
- iii preserve historical heritage;
- iv a rational exploitation of forest resources would be necessary.

### C Industrial Sector

- i expand industries such as sheet glass for the construction industry, cement and factories producing chemicals, etc. that utilize domestic raw materials.
- ii encourage cottage and small-scale industries;
- iii encourage the production of capital goods from imported metals reduced to scrap;
- iv strengthen and develop construction capacity.

### D Infrastructure Sector

This sector comprises roads, air and rail transport, power, telecommunications, water supply and sewerage.

#### D.1 Road Transport:

- i maintain and upgrade roads and highways that have

- fallen into disrepair;
- ii build new roads and highways;
- iii build rural roads;
- iv issue standards for highways;

#### D.2 Air Transport

- i improve upon existing facilities;
- ii build new airports and airstrips.

#### D.3 Power

- i expand the inter-connected high-voltage system whose coverage is at present limited;
- ii establish new hydro-and geo-thermal power stations and increase the supply of electricity.

#### D.4 Telecommunications:

- i improve upon existing facilities;
- ii expand telecommunications services.

#### D.5 Rail Transport

- i improve the Djibouti-Addis Ababa railway system;
- ii build railway lines within Addis Ababa;
- iii build railways lines whose feasibility studies prove to be economical.

#### D.6 Water Supply and Sewerage:

- i build underground sewerage systems in major towns;
- ii increase the supply, as well as effective utilization, of potable water in rural and urban

areas.

**E The Education Sector:**

There are six major areas of investment under this sector.

- i improving the quality of education;
- ii expanding the educational system by giving priority to elementary education;
- iii encouraging the expansion of higher education and technical training consistent with the demand for manpower;
- iv organize on-the-job training for public institutions and other agencies;
- v provide professional and technical training for workers in heavy and light industrial establishments;
- vi expand basic education in conjunction with services provided to the rural population.

**F The Health Sector**

Four areas of investment may be mentioned here.

- i raise the quality of health services;
- ii expand basic health services and related health institutions;
- iii expand family health service;
- iv control the spread of communicable diseases, especially malaria.

**G Women's Participation:**

Four areas of activity may be mentioned under this heading.

- i create opportunities for women's access to, and administration of, property, especially land; ensure the equality of opportunities regarding access to credit and other inputs for increasing productivity, especially in rural Ethiopia;
- ii create favorable conditions for increasing female enrollment and retention rate;
- iii encourage and foster female participation in decision making at household and community levels, in public and private sectors as well as in politics.
- iv promote and strengthen women's participation in the modern sector.

**H Population Policy:**

The major task here is to ensure implementation of the population policy.

The above major areas of investment are far from being exhaustive. Clearly, not all the investment programs may be undertaken or realized all at the same time. The inherent advantage of a strategy lies in the fact that it assists in prioritizing programs that cannot be implemented all at the same time, and for preparing an action program. The action program is both short- and long-term. Other things being equal, short-term programs would have precedence over long-term programs. At least three sources of economic growth may be identified in the short-run. These are, first, adequate utilization of existing capacities; second, rehabilitation of damaged capacities; and third, increasing agricultural production. These would have to take precedence over the creation of new investment capacities. When new investments are undertaken, priority will be given to projects that promote the objectives of increasing exports and attaining food self-sufficiency. Even though investments in the social services sector, particularly education, have long gestation

periods and although such investments may not be consistent with the priority mentioned above, a sustained investment would, nevertheless, have to be made in the sector.

### 3 Forces for Implementing the Strategy

Any given strategy comprises at least three key issues. These include the objectives of the strategy, definitive guidelines for its attainment, and those who would have to play active roles for the realization of the objectives. Of these three issues, the first two have already been dealt with. The third issue, that is, the forces expected to play key roles for implementing the strategy, will be discussed below.

The implementation of this strategy can be guaranteed, first and foremost, through the active involvement, at the national level, of all forces at all stages. Internal forces are mainly the central government, national regional administrations, private investors, and development-oriented co-operatives, already established or to be established. The central government issues policies, laws and guidelines as aids for implementing the strategy; it involves itself in areas from which, for one reason or another, the private sector shies away; it provides infrastructure, promotes research, ensures the availability of skilled manpower, ensures the operational efficiency of public agencies involved in development by streamlining them organizationally, creates favorable conditions for encouraging and strengthening private capital, and opens up opportunities for the population to jointly undertake development activities.

National regional administrations also would play a key role for implementing the strategy. On the basis of their links with the central government, regional authorities will create the conditions, and participate in, the development of their resources and create appropriate conditions to promote the development of the

economies of their respective regions. Within the framework of the strategy, and on the basis of the specific conditions in each region, they will be responsible for issuing laws and regulations pertaining to financial matters; interest rates and credit, investment and taxes; they will encourage and promote private participation in development, and create the conditions for the full utilization of productive capacities in their respective regions. They are expected to remove all obstacles and bureaucratic red-tape that impede development and create efficient administrative structures conducive to development.

The strategy can be implemented in its entirety when private investors, taking advantage of the favorable environment created for them, fully participate in development activities. They are expected to promote and enhance their participation in development by establishing business ventures in the various regions and take advantage of the incentives and other promotional measures provided them by the state. Private capital is expected to go into regions designated as priority by the government and widely participate in the economic development of the country.

Other major internal forces that are expected to substantially contribute to implementation of the strategy are non-governmental and grass-roots community organizations.

It is anticipated that these organizations will contribute to the realization of the strategy's objectives by coordinating their efforts and widely participating in development activities, by establishing development-oriented organization in the various regions, and by fostering popular participation in development activities in rural and urban areas.

While external forces are also expected to participate in implementing the strategy, their roles can only be complementary to those of internal forces. External forces include governments and

donor agencies. The participation of foreign private investors, on the basis of the favorable investment policy and laws for encouraging foreign private capital, investment incentives and other promotional measures, could made a significant contribution towards realizing the objectives of the strategy.

#### 4 Conclusion

It should be acknowledged that what has been discussed in this paper is far from being comprehensive, as it embraces only a handful of key sectors and ideas considered to be of strategic importance for propelling the agricultural-led industrialization strategy towards its goal. Not all sectors have been incorporated, because additional details are bound to render the objectives of the strategy murky and obfuscate the strategy itself. The fact that only a few sectors have been incorporated into the strategy should not give the impression that other sectors have been ignored or overlooked. As implementation of the strategy progress, those sectors that have not been included will be evaluated regularly from the point of view of their contribution to the objectives of the strategy and will be incorporated into the strategy. Each sector of the economy would have to be scrutinized regarding whether it adds vitality to the strategy and its objectives before it is incorporated. And, finally, as a basis for implementing the agricultural-led industrialization strategy, as well as sectoral strategies and the investment programs and priorities, short-and medium-term plans along with detailed sectoral strategies would have to be prepared.