Ethiopia’s “economic growth miracle” defies the “one size fits all” approach to economic development

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ABSTRACT

Over the past decade, Ethiopia achieved rapid and stable economic growth, considered as a ‘miracle’ when compared to other Sub-Saharan African countries. Ethiopia’s average real GDP growth per annum was estimated at 10.8% between 2003 and 2015\(^1\). In addition, Ethiopia succeeded in reducing its poverty rate by 21.8% between 2000 and 2011\(^2\). Classical development theories provide analytical tools to help outline traditional patterns of economic development. However, this paper will reveal that the EPRDF government defied generally accepted assumptions concerning processes of economic growth by establishing ‘the Ethiopian way of development’. The EPRDF ruling party fostered an environment for economic growth stability by focusing on original programmes and policies that developed infrastructures and improved access to basic services, expanded the commercialization of agriculture, and provided more opportunities for the private sector. The state’s development strategy was inspired by multiple economic and development theoretical elements. However, these concepts were adapted in an unprecedented manner in order to achieve Ethiopia’s development goals. This paper will complement this analysis by considering the influence of geographical and institutional factors on the economic growth of Ethiopia.


\(^{2}\) Ibid.
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Introduction

“All societies used to be poor. Most are now lifting out of it. Why are others stuck? The answer is traps. (...) In the modern world of globalization, there are some fabulous ladders, most societies are using them” (Collier, 2007:5). However, most poor countries, and in particular Least Developed Countries, are stuck and very often cannot see their way out of these traps.

The search for “ladders” and more specifically the determinants of economic growth has been undertaken by many political economists and policy-makers. It is a topic that will always intrigue researchers, because developmental theories cannot yet satisfactorily explain why some countries remain in the poverty trap and others escape from it. Sub-Saharan Africa is of particular interest, as most inhabitants of the region live under the international poverty line set at $1.90 per day and countries experience hunger crises, conflicts, cycles of economic and political instability while still suffering from the effects of the legacy of colonialism.

Paradoxically, the World Bank published a biannual Global Outlook in 2017 which indicates that three Sub-Saharan African countries (Ethiopia, Ghana and Côte d’Ivoire) are in the top five countries of the world’s fastest-growing economies. Similarly to other LDCs, Ethiopia’s growth performance was unsteady and low during the 1980s. By the end of the 1990s, Ethiopia, the second most populous country in Sub-Saharan Africa, was considered to be one of the poorest countries in the world but now stands out as one of the few countries in Africa to have achieved accelerated and sustainable economic growth in the 21st century. Since 2004, Ethiopia’s spectacular average annual economic growth has been estimated at 10.6%, which outperforms that of China, which is estimated at 10.2%. Ethiopia’s growth is approximately double the regional average and is becoming one of the world’s fastest growing economies. Both the IMF and the Ethiopian People’s Revolutionary Democratic Front government in its GTP II (GTP II, 2016: 6) predict that Ethiopia will become a lower middle-income country by 2025.

This unique economic recovery is strongly associated with the establishment of political stability. Peace was restored in 1991 when the Derg’s military dictatorship was overthrown by the EPRDF. This coalition of former rebels established a democratic party, which is still ruling the country. The multiple pro-poor structural transformations undertaken by the EPRDF government managed to reduce the poverty level in Ethiopia, while remaining one of the most egalitarian countries in Sub-Saharan Africa for income distribution, with a Gini of 33.6 in 2013. The objective of this thesis is to analyze and evaluate factors that played a decisive role in the “Economic Growth Miracle” of Ethiopia.

Therefore, several determinants of economic growth in Ethiopia will be taken into consideration and analyzed. This thesis will indicate that several aspects of theoretical analysis provided in this paper need to be combined in order to comprehend Ethiopia’s unorthodox process of economic development. Ethiopia’s “growth miracle” is in reality the result of its persistent effort to economically, politically and socially reform the country, while overcoming many geographical and institutional obstacles as set out by IR theories. The growing consensus among scholars is that each country has to develop its own strategy to achieve sustainable economic growth.

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## List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ASDEP</td>
<td>Accelerated and Sustainable Development to End Poverty programme</td>
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<td>ADLI</td>
<td>Agricultural Development-led Industrialization</td>
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<td>EPRDF</td>
<td>Ethiopian People’s Revolutionary Democratic Front</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GNI</td>
<td>Gross National Income</td>
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<td>GTP</td>
<td>Growth and Transformation Plan</td>
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<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IPRI</td>
<td>International Property Rights Index</td>
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<tr>
<td>LDC</td>
<td>Least Developed Countries</td>
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<td>NIE</td>
<td>New Institutional Economics</td>
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<td>ODI</td>
<td>Overseas Development Institute</td>
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<tr>
<td>PASDEP</td>
<td>Plan for Accelerated and Sustained Development to End Poverty</td>
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<tr>
<td>PDTES</td>
<td>Participatory Demonstration and Training Extension System</td>
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<tr>
<td>SDPRP</td>
<td>Sustainable Development and Poverty Reduction Programme</td>
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<tr>
<td>TNC</td>
<td>Transnational Corporation</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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Chapter 1: Methods

The notion of ‘economic growth” is often used in studies focusing on developed countries, while development studies typically refer to the study of the process of economic development in low income countries.

The UN classifies countries according to their level of development, which can be measured by per capita GNI. According to the UN “Country classification” index, countries can be ranked in one of four different categories, which are “high-income”, “upper middle income”, “lower middle income” and “low-income”. The World Bank also uses the GNI per capita, as a measurement to evaluate the relationship between economic variables and welfare variables. According to the analytical classification of the world’s economies in 2015, the World Bank defined countries with under $1,025 GNI per capita as low-income countries, those between $1,026 and $4,035 GNI per capita as lower-middle income countries, those between $4,036 and $12,475 GNI per capita as upper middle income countries, and those with $12,476 or above as high-income countries.

In addition, the UN Economic and Social Council establish a list of “Least Developed Countries”, which are defined by three criteria. Firstly, the country must be classified in the group of low-income countries for at least three years. Secondly, low levels of human assets can be observed in a country. Lastly, its economy can be regarded as vulnerable to “economic and environmental shocks”. At present, 48 countries are listed as “least developed countries”, of which 33 are located in Africa, including Ethiopia.

Development studies demonstrate that economic growth stimulates economic development and attempt to determine why government institutions invest time and resource to improve economic growth (Gebru, 2015:1). Chenery and Syrquin cite high income growth rate per capita, capital accumulation and a shift from low productivity sectors to high productivity sectors in economic activities as key indicators of structural transformation in the development process (Syrquin et al., 1989:1-3).

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9 ‘LDC Identification Criteria & Indicators’, UN Department of Economic and Social Affairs, from https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-criteria.html
In determining factors that influence the economic growth and development of Ethiopia, this thesis will adopt various viewpoints, covering the Marxist, NIE, modernisation and statist perspective on political economy. Many scholars have already contributed to this debate using alternative assumptions, implying that geography or institutions alone are mainly instrumental in determining the economic gap between countries. Therefore, the researcher will also try to analyze geographical and institutional factors explaining why Ethiopia achieved sustainable economic growth.

The researcher will determine a time limit ranging from 1990 to 2015. This time frame will be used to illustrate Ethiopia’s rapid restoration of stability and its ability to make long-term plans that contributed to improving its state of development since the end of the Derg’s military dictatorship. This period coincides with the time when Ethiopia managed to emerge from extreme poverty and began to climb the “fabulous” ladder (Collier, 2007:5). This study allowed the researcher to observe that theories explaining why countries are poor need to be combined in a more unified analytical frame in order to reflect the reality of the situation in the 21st century. Ethiopia is an unorthodox model of economic growth and findings from this experience could be applied to the development of other low income countries.
Chapter 2: Development theory and Ethiopia

Ethiopia’s first phase of rapid economic progress began with the institutionalization of a market-oriented economy following the downfall of the Derg military regime in 1991. The EPRDF fostered conditions for the second phase of economic progress, which started in 2004, with the introduction of numerous structural economic reforms. Amongst them were the PASDEP (implemented from 2005 to 2010) and the Growth and Transformation Plan (enforced since 2010), which generated high growth performance and provoked development progress, and in particular a 21.8 % drop in Ethiopia’s poverty rate between 2000 and 2011\(^{10}\). Moreover, the country improved many of its development indicators, particularly its child and infant mortality indicator, which led Ethiopia to reach most of the MDGs.

Initially agriculture was the principal economic sector that helped accelerate economic growth. In 2013, the agricultural sector accounted for 72.7% of employment figures in Ethiopia\(^{11}\) and its value added contributed to 44.9% of the GDP\(^{12}\). Presently, agriculture and the services sectors generate most economic growth for supply in Ethiopia, while investment and consumption stimulate demand. During the second phase of economic growth, characterised by an average growth rate of 10.9% between 2004 and 2014, services became the dominant sector (5.6%), followed by the agricultural sector (3.6%), and industry (1.7%) (World Bank, 2016:57).

The following analysis of Ethiopia’s singular pattern of development through modernisation, critical and statist approaches will reveal that “The challenge is hence not about kick-starting growth, as it was the case for most LCDs prior to 2000, but rather about ensuring the sustainability of the current growth momentum” (Shiferaw, 2017: 2).


2.1. The modernization approach applied to Ethiopia’s growth

In the aftermath of World War II, modernization theory came into vogue when the US became a capitalist power and a model of economic growth for other countries (Nustad, 2001:480). From approximately 1940 to 1960, modernization theory was the predominant development theory, which attempted to explain why countries in the South were not as developed as countries of the North, despite worldwide exposure to Capitalism. The modernisation theory assumes that modern countries are western industrialised nations and traditional nations are developing countries. Cultural and economic differences are considered to be barriers to development. Therefore, the principle of modernization consists of the introduction of western values, culture and economic practices. More specifically, economic growth can be triggered through increased trade between industrialised and poor countries (Martinussen, 1997: 56). Rosenstien-Rodan brought forward the notion of “big-push”, according to which the state needs to invest in large scale investment projects and create conditions to educate its workforce in order to accelerate growth.

The EPRDF government underwant the “big push” by heavily investing in human capital. The Ethiopian state outlined a development strategy that encouraged agricultural and manufacturing productivity, as well as public infrastructure investment that relied on heterodox macro-financial policies. Such an economic choice of development through massive public investment is uncommon amongst low income countries and the Ethiopian government’s high spending strategy led Ethiopia to have one of “the world’s biggest contingent of extension workers” (World Bank, 2016:57). The Ethiopian extension training programme initially counted 2,500 workers in 1995 and reached 49,000 workers in 2009 (Berhanu, 2014:198). Berhanu et al. estimates that Ethiopia accounts for 25% of all extension workers present in Sub-Saharan African countries. Thus, Davis affirms that “the degree of growth since 2002, both in personal and infrastructure, is unlike any other extension system in the world” (Berhanu, 2014:198). Dercon et al. demonstrated the effectiveness of Ethiopia’s extension programme by observing that households that were in contact with extension officers (between 1994 and 2004) were 9.8 percentage points “less likely to be poor” compared to other households that did not benefit from the extension programme (Dercon, 2008:201). Furthermore, the programme also contributed to a 7% increase in consumption growth during that same period. Considerable progress was also made under the SDPRP and the ASDEP programmes, which were designed to promote rural development and to ensure
food security. These plans succeeded in both modernizing the agricultural sector and boosting production.

Unlike previous regimes in Ethiopia, the EPRDF government is highly devoted to allocating public investments in infrastructure as well as in education and health, making the country “a symbol of economic turnaround in Africa” (Shiferaw, 2017:2). The role of education and agricultural management training played a decisive role in farming productivity, resulting in higher incomes and in reducing poverty. A World Bank study estimates that between 2005 and 2011, the performance of the agricultural sector alone was responsible for a 7% decrease in poverty levels, as “each percent of agricultural growth reduced poverty by 0.9% compared to 0.55% for each percent of overall GDP growth”\(^\text{13}\).

Moreover, the EPRDF government adopted western economic principles by introducing liberalisation policies in the 1990s with the aim of reinvigorating the manufacturing sector. The government decided to privatize some firms and transfer management autonomy to certain publicly owned firms in the hope of providing incentives for the private sector. Ethiopia’s model of development does not entirely conform to theoretical assumptions induced by modernisation theory. Sir Arthur Lewis argued that developing countries undertake structural reforms to encourage workers of the agricultural sector to migrate to manufacturing. Ethiopian agricultural workers shifted to activities linked to services and construction, “largely by-passing the critical phase of industrialization” (World Bank, 2016: XIV). Nonetheless, the EPRDF government currently focuses on promoting opportunities for light manufacturing and for industrial parks expansion.

The World Bank contends that “While a strong push for infrastructure development at the early stage of development is far from unique, the way in which Ethiopia achieved this sets it apart”. The present Ethiopian government recognises the need for a market-based economy, but insists in intervening in all economic sectors, which goes against free market policies recommended by most international financial organisations. Therefore, by applying a “one-size fits all” model, modernization theory fails to fully explain the process of rapid development in Ethiopia.

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2.2 The Marxist approach applied to Ethiopia’s growth

Within the critical political economy camp, Joseph Stiglitz and other Marxist scholars are critical vis-à-vis financial dependence advocated by modernization theory (Stiglitz, 2001: 37). David Harvey upholds that neoliberalism is responsible for perpetuating the phenomenon of class on society. Similarly, Gérard Duménil and Dominique Lévy assert: “neo-liberalization was from the very beginning a project to achieve the restoration of class power” (Harvey, 2007: 16). Karl Marx’s core assumption was that the system of free market exploits workers and private property leading to the poverty of the masses. Therefore, the economy needs to be planned and managed by the state in order to overcome inequalities.

Within the Marxist tradition, the EPRDF believes that globalization implies a rent-seeking type of behavior, which endangers development efforts. Consequently Ethiopia’s ruling party is reluctant to receive foreign aid and does not tolerate political interference from foreign countries when dealing with financial aid or assistance from NGOs, unless there is an agreement to cooperate with local political institutions. Such opposition to foreign interference can be noticed in a 2015 report published by the Ministry of Finance and Economic Cooperation of the Federal Democratic Republic of Ethiopia, which mentions that the policy for National Development was designed and put into place “solely by the Ethiopian government, without any outside influence including grand economic power-houses”. The government is the only political institution that can relate to the reality of the socio-economic conditions of the country.

The EPRDF government has undertaken programmes to improve the education sector, but their sustainability depends on foreign investments. Bilateral and multilateral donors, such as the IFAD and the SG-2000, support the EPRDF’s development project through investments. However, the EPRDF outlines policies that adopt a Marxist type of approach, thus going against many neoliberal recommendations provided by foreign donors. Contrariwise to other African countries, the Ethiopian government also invests through its own financial resources in its extension programmes. According to Shiferaw, Ethiopia’s aid-dependence decreased by 10 percentage points between 1980 and 2014, and represented 15% of its GDP between 2010 and 2014. The reason is that domestic investments in Ethiopia grew more rapidly than aid flows: “the percentage of domestic investment financed by foreign aid declined from 50% during 2000-04 to about 29% during 2010-14” (Shiferaw, 2017:14).
The role of the private sector in agriculture generates considerable debate and provokes tensions in Ethiopia, most noticeably with regards to the production of seeds and fertilizers. The inaugural meeting of the Agribusiness Forum in 1997 - reuniting domestic private operators, government ministers, multilateral companies as well as donors – was the first official opportunity for discussing the role of the private sector within the government led project on agriculture. Five years later, the EPRDF government decided to maintain a strict position against the free entry of the commercial private sector (Berhanu et al., 2014: 204). Despite the introduction of liberalisation policies in the 1990s, which supposedly brought an end to the monopoly of state-owned agricultural firms, privately owned fertilizer companies were impeded from entering the agricultural market. The only two non-state owned private firms were pushed out of the Ethiopian fertilizer market due to state pressure that gives “preferential treatment” to companies that have strong connections with the ruling party. Jayne argues that such “preferential treatment” related to fertilizer and seed production was given through government grants to help farmers improve the distribution of their products and the allocation of foreign exchanges for importations (Berhanu et al., 2014: 204).

The issue of land holding in Ethiopia is central to many political and economic debates and its system of ownership follows the country’s historical division between the peasantry and the aristocracy that used to own land. Although the EPRDF government conducted policies to liberalise the market, it explicitly mentioned in the EPRDF’s constitution that the state is the owner of the land. However, the World Bank accuses the Ethiopian state of allowing land grabbing through land acquisitions by foreign investors. This can indicate that Ethiopia’s political and economic institutions are progressively shifting away from supporting smallholder farming and are beginning to support international commercial agriculture.
2.3. The statist approach applied to Ethiopia’s growth

While neoliberalism postulates that the state should play a minimal role in the economy, the statist approach considers that the state needs to intervene in the economy and should be the engine of socio-economic development. Castells posits that the economic development of East Asian countries relied on a high degree of state intervention to defend their political and cultural identity in the international system (Abe, 2006:8). The ideology of ‘developmentalism’ describes an economic system based on the recognition that state intervention in the market is necessary for industrialisation. Charlmer Johnson in *MITI and The Japanese Miracle: The Growth of Industrial Policy* theorised the ‘developmental state’ as the embodiment of this ideology in the 1980s. According to Castells: “a state is developmental when it establishes as its principle of legitimacy its ability to promote and sustain development, understanding by development the combination of steady high rates of economic growth and structural change in the productive system, both domestically and in its relationship to the international economy” (Abe, 2006:9). The notion of ‘developmental state’ was commonly used in the 20th century to refer to East Asian countries, which operated state-led macroeconomic planning. Developmental states are characterised by their strict control over their national economy as well as their independence from political power. In a developmental state, political elites transfer power to the bureaucracy in order to plan and enforce polices that will generate growth. High economic performance reinforces the legitimacy of the centralised state apparatus, which implies that the nation is further removed from the decision-making process.

In its organisational strategy report named ‘Development, Democracy and Revolutionary Democracy’, the EPRDF stipulates that its development approach of broad-based growth is largely influenced by the economic development experience of East Asian nations. Nonetheless, Ethiopia’s economic system is distinct from East Asian countries (Rodrik, 2014:9; Shiferaw, 2017:4), particularly with regard to the predominant role given to the agricultural sector in triggering and sustaining growth. Nonetheless, the EPRDF government set out an industrialisation agenda that puts emphasis on the textile, garment, sugar and leather products industries. The strategy is that these industries will continue to be associated to the agricultural sector in order to capitalize on Ethiopia’s comparative advantage in labour-
intensive products. This choice of industries would eventually generate financial resources through exports and would be used to expand other types of manufacturing industries. However, due to credit constraints, private investments are lacking in the manufacturing sector: “50% of Ethiopian manufacturing firms have a zero investment rate at any point during the period 1996-2007” (Shiferaw, 2017: 5).

Mkandawire and Castells’ input can be applied to the ruling party in Ethiopia, which strives to reinforce its legitimacy, despite dubious victories during elections, through large public investment in infrastructures and maintaining a high rate of growth. The downfall of previous political regimes in Ethiopia was related to their underestimation of the significance of the role of agriculture in the prevention of recurrent famines. Therefore the EPRDF initiated policies centered on agricultural development to accelerate economic growth. The ODI published a report in 2015, which highlighted the efficiency of Ethiopia’s government multi-dimensional development strategy that involves traditional farming practices, higher values of crop-mix and ADLI. Many African governments do not allocate a minimum of 10% of their national budget to agricultural and rural development as recommended by the Assembly of the African Union in 2003. However, official figures obtained by Fan et al. (Fan et al., 2009:7) reveal that the Ethiopian state invests an average of 15% of its development budget in agriculture, making it the mainstay of economic growth. Agriculture accounted for more than 40% of the country’s GDP and 80% of the labor force between 2006 and 2010 (Ethiopian Economic Association, 2011:58).

The World Bank considers the EPRDF government to be an “authoritarian developmental state model”, which has adopted a “state-market approach” specific to Ethiopia. Indeed, the Ethiopian government controls rents in order to increase both competitiveness and productivity, while ensuring that individual rent-seeking ambitions will not undermine economic objectives. The Ethiopian developmental state does “not conform to the Western consensus of what is a good institutional model, and consequently do not show up as good on World Governance indicators” (World Bank, 2016: 20). The present Ethiopian government succeeded in governing the country and in institutionalising the power according to a developmental approach, particularly by emphasising unity amongst competing groups as a key to economic success.
Chapter 3: The influence of institutions and geography on Ethiopia’s economic growth miracle

Studies on economic growth and development often narrow down their analysis to the role of productivity and accumulation. However, Hall and Jones as well as Rodrik assert that other factors can affect the economic performance of countries. Ethiopia is a landlocked country which is home to more than seventy ethnic groups, spread across its geo-ecologically diversified regions. Most inhabitants in Ethiopia depend directly or indirectly on rain-fed agriculture for their livelihood. USAID estimates that 7.8 million people in Ethiopia required relief food aid in 2017, which proves that the country is not yet in a position to be self-sufficient for food security. Furthermore, the FAOSTAT evaluated that 31.6 million people were undernourished in Ethiopia between 2014 and 2016, at a moment when the country was considered to be one of the fastest growing economies in the world. Therefore, it is of interest to analyse how the EPRDF government managed to overcome difficulties linked to geographic economy, but also to examine the institutional quality of the country’s institutions that led to this paradoxical socio-economic process of development.

3.1. The influence of geographical factors on economic growth

Adam Smith in the Wealth of Nations made the assumption that economies of coastal regions often outperform the economy of landlocked countries. Similarly Sachs, Mellinger and Gallup posit that poor countries accumulate two geographical obstacles, which are the physical difficulty of access to overseas trade and the consequences of tropical climates.

Although institutions are assuredly engines of development, geographical factors such as latitude, the renewability of resources and the spread of flora and fauna have an impact on agricultural productivity and therefore on economic activities. According to Masters and McMillan, even if most wealthy countries no longer depend economically on agricultural activities, their historical agricultural success allowed them to build and accumulate capital. In tropical regions, attempts have been made to improve agricultural activities through the
introduction of temperate-zone farming methods. Nonetheless, both colonialism and donor agencies have failed in tropical countries (Sachs et al., 2001: 75). The rate of agricultural productivity depends on geographical disparities, which are specific to each country and can lead to major growth differences in the long term.

Sachs and Warner postulate that in modern economy, resource-poor countries tend to grow more rapidly than countries that are abundant in natural resources (Sachs et al. 1997: 2). In the 1970s, scholars assessed that abundance in natural resources can be a “curse” for economic growth, which provides a “‘false sense’ of confidence” for future wealth” (Pessoa, 2008: 6). In turn, this sentiment leads individuals to put less emphasize on the need for savings and investments. Davis and other opponents to the “natural resource curse”, argue that it omits to explain some specific situations of economic growth, such as the economic prosperity of some resource rich countries like Australia and the US (Davis, 1998: 221). Despite this limitation, it is worth considering other perspectives that have contributed to understanding the importance of geography in explaining different levels of economic growth between poorer countries.

According to Salai Martin and Doppelhofer, natural resources are a crucial variable in determining a country’s economic growth. Many social scientists, such as Pessoa (Pessoa, 2008, p.6), assert that variations in economic growth stem from economic choices of production. The extraction of natural resources does not engender as many positive externalities as manufacturing and does not require a “complex division of labor”, thus leading to a lower standard of living compared with manufacturing (Sachs et al., 1997: 5). Furthermore, Gylfason, Sachs and Warner argue that highly qualified labor is not fundamental for exploiting the primary sector and does not encourage the state to invest in education and technologies. Developing countries abundant in natural resources tend to adopt protectionist measures in order to maintain natural resource productivity as the main activity for economic growth. It is a vicious circle that hinders developing countries when competing in the international market.

McMichael contends that the present structuring of world agriculture creates a division between low and high value products. Countries that trade low-value products are often countries of the North, characterized by temperate climates that favor the production of cereals and oilseeds. Trade in high-value products is dominated by corporate agro-exporters that set their production in the South. Magdoff sees corporate farming as a “strategy” used by TNCs to pursue their “neocolonial project undercutting local farmers” (Magdoff, 2000: 135).
While agricultural liberalization allows “greater integration” in the world economy, McMichael argues that it also “reinforces global power relations – in this case the relations of agribusiness imperialism” (Magdoff, 2000: 141). In developing countries, the integration of smallholder farmers into market relations can lead to the reinforcement of the global phenomena of commodification of food, which is one of the predominant factors that causes famine. Araghi also criticizes the intervention of international organizations, such as the IMF and the USAID, through lending programs that put pressure on low income countries to transform their agriculture policies from a local-subsistence type to an export type. Low income countries dependent on the production of primary commodities are particularly vulnerable to the volatility of worldwide prices and foreign interferences in their agricultural policies contribute to reinforcing their economic state of instability.
3.2. Geographical factors: determinants of Ethiopia’s development

Over the past decade, Ethiopia succeeded in becoming a “fast growing non-oil” economy (Gebru, 2015:4). By sustaining its state-led model of growth strongly based on agricultural development, Ethiopia “stands out from a group of similar, high-performing regional peers”, (World Bank, 2016:16). Due to a good harvest in 1995 and the success of the SG-2000 scheme, economic geography led the EPRDF government to place agricultural development at the center of ADLI. The Ethiopian government puts emphasis on the exploitation of natural resources in its GTP, which will make Ethiopia a global hub for light manufacturing within a climate resilient green economy (GTP II, 2016: 78).

The government established the Participatory Demonstration and Training Extension System with the objective of increasing the quantity and variety of industrial raw materials, boosting production for export and most importantly providing conditions that will lead Ethiopia to be food self-sufficient despite environmental challenges. Environmental difficulties, such as dependency on rain-fed agriculture, threaten Ethiopia’s economic sustainability. The African Development Bank evaluates that a 1% change in average annual rainfall can lead to a 0.3% change in real GDP in the following year. This causal effect of climate on Ethiopia’s declining growth performance was observed between 2002 and 2003, due to a series of droughts.

The PDTES participatory training system has been adapted to the three main agro-ecologies in Ethiopia, which are reliable moisture, moisture stress, and nomadic pastoralist areas. According to Rahmato, the major input of the PDTES was the recommendations it provided for all types of geo-ecological environments, and in particular crop improvements in dry-land areas (Berhanu, 2014: 204).

Ethiopia is a landlocked country that can be dependent on the state of its political foreign relations and on the economic performance of its neighbors. Not having direct access to ports of the Red Sea or of the Gulf of Aden constitutes an economic drawback for Ethiopia. The country’s foreign trade (75%) used to transit through Eritrea, but the war (1998-2000) between those two countries drove Ethiopia to choose Djibouti as its new main transit country (Faye et al. 2004:45). In addition, the One Belt One Road Initiative is a Chinese development project that improves international connectivity for trade and helped Ethiopia overcome its
landlocked situation. Chinese railway companies invested US$ 4 billion in Ethiopia in order to facilitate export activities (ZiroMwatela, 2016: 12).

Despite setting the guarantee for food security as a priority, the EPRDF government is progressively opening the country to foreign investors, who acquire land for private neoliberal rent-seeking goals. The World Bank considers that African governments, including the Ethiopian government, are “host to what is widely called “‘land grabbing’, or the aggressive foreignization of land and resources through a suite of land transactions” (Makki et al., 2011: 2). Makki et al. argues that from a neocolonial perspective, non-Western countries are restructuring global property relations and are upsetting the traditional north-south dichotomy. According to a IFFPRI report (von Braun et al., 2009:5), Ethiopia’s main investor country is India, which has made a US $ 4 billion deal in agriculture, flower growing and sugar estates. The majority of the land taken over by foreign investors is situated in lowlands, characterized by low population rate and high rainfall. Foreign investors are present in the region of Benishangul, in which the agricultural company ‘Saudi Star’ grows rice for the Saudi market, and the region of Gambella, in which the Indian agricultural company Karuturi exploits the land for commercial development. These foreign investors seek opportunities to export agricultural products in a time of rapid international food price inflation.

The Ethiopian government asserts that the expertise in commercial agriculture of foreign investors will contribute to the economic development of Ethiopia. However, Ethiopian political opponents to the EPRDF party argue that such an institutionalization of commercial agriculture will affect ecology and vegetation of concerned areas. Due to the highly agrarian nature of Ethiopia, it also threatens the livelihood of 83% of local populations (UNDP report 2014) that essentially rely on natural resources. Most importantly, foreign investors lease land in order to export their agricultural production to their home market and because the foreignization of farms involved in this process, food for Ethiopian people will no longer be produced, thus undermining the national project of food security.
3.3. Institutional theory

Many social scientists agree that the concept of “institutions” is not a universal essence, but a social construction that is endowed with contrasting connotations across societies. Scholars of classical and contemporary studies of political economy attempt to comprehend the significance of “institutions” and its effects on economic growth. The predominant perspective is sought by NIE, according to which institutions can provoke economic outcomes by eliminating potential causes of market failure. NIE academics assume that institutions focus on the behavioral adaptations that allow the process of “increasing returns” (Pierson, 2000: 255), by ensuring a stable environment for human interaction. Therefore, Lichbach and Zuckerman assert that: “All institutions are embodiments of rules, all have a legalistic aspect, and all possess enforcement mechanisms. They are considered political institutions when the state enforces the rules, social institutions when enforcement is through mechanisms such as approval and shunning and economic when enforcement is by means of profit and loss” (Lichbach et al., 1997: 25).

The core assumption of Marxism is that both the state and the market are supra-individual institutions that hinder voluntary social cooperation. Institutions are included in the Marxist paradigm of “superstructure”, considered to reflect the interests of the ruling class that dominates the base. Similarly, the social conflict perspective asserts that institutions are designed by individuals holding political power. Institutions can be instrumental in maximizing the rents of the ruling class. Thus, institutions are representative of perpetual tension between the ownership structure, which aims to increase the rents of the ruler and the overall system that attempts to sustain economic growth. The statist approach considers institutions to be invested with an open policy mandate and capable of carrying out strategic planning. Indeed, state institutions are seen as more effective than markets in sustaining economic growth and development. States, and in particular development states, rely on their capability to sustain growth in order to remain the legitimate ruling institutions. Acemoglu, Johnson and Robinson posit that political power and the allocation of resources necessarily lead economic and political institutions to influence each other.

From a NIE perspective, the “inclusive” or “extractive” nature of institutions is decisive in
furthering or impeding economic growth. In practice, good institutions allow law enforcement, property protection and fundamental rights, which are indispensable for economic development. Absolutist or bad institutions tend to center power and wealth in the hands of a few, such as the elite or a dictator, which is to the disadvantage of the ordinary people of extractive economies (Acemoglu et al., 2012:101). According to Acemoglu and Robinson, extractive institutions reduce countries to stagnation of the economy and continuous poverty. Within the African context, Acemoglu and Johnson consider that “bad institutions” account for the incapacity of political institutions to supply basic public goods, to secure property rights, and to remedy dysfunctional markets. According to Alence, such a situation provoked by weak governmental institutions creates the perfect context for corruption and fragile systems of political constraint (Alence 2004: 167). Based on democratic values, inclusive institutions promote reward for efforts and proportional redistribution of wealth. This creates a virtuous circle of population growth and development leading to sustained enrichment. Furthermore, inclusive institutions support economic growth through investment in infrastructures and education, which benefits the common good.
3.4. The Ethiopian case of development in the light of institutional theory

Ethiopia’s planned economy, the high degree of state intervention in the market, and its one-party state model, are determinants that show that the country’s political and economic institutions refer to the NIE’s notion of absolutist institutions. From a Marxist perspective, Ethiopia’s political institutions aspire to respond to the needs of the common good and can be regarded as inclusive. Indeed, between 1995 and 2011, Ethiopia’s poverty decreased by 26% while income inequality remained at a low level. Similarly, the statist approach to institutions is effective in revealing the developmental nature of the Ethiopian state, which undertakes massive public investments accordingly to its economy-wide plan of production. Many scholars having analysed Ethiopia’s pattern of economic development agree on the fact that its rapid growth since 2000 is the result of massive state investments in public infrastructures. Contrary to many SS African countries, the Ethiopian government prioritized capital spending over consumption of the state budget. In 2014, the government attributed 16% of its GDP to public infrastructure projects (Shiferaw, 2017:5). The decline in military conflicts since the war with Eritrea (1998 to 2000), the expansion of secondary education and the openness to international trade favoured opportunities for the government to concentrate on projects improving public infrastructures. Contrary to other low income countries, the EPRDF government prioritised investment over consumption in order to generate returns on capital but also to serve the interest of the common good, thus being in line with “inclusive” institutions.

Nonetheless, Berhanu et al. puts emphasis on the high level of political control operated by the EPRDF, particularly noticeable during the 2010 parliamentary elections with the ruling party’s 99.6% victory\textsuperscript{14}. Since the first democratic national elections in 1995, the EPRDF has won all other elections. In the long term, this political control has undermined Ethiopia’s democratic process, which is “stalled with ever diminishing space for opposition parties” (Shiferaw, 2017:2). Tight political control is also applied to NGOs and their policy-advocacy activities (Berhanu, 2014:200). The ruling party makes it a priority to control or prevent the establishment of influential groups in Ethiopia. Internal threats, such as the Ogadem National

Liberation Front in the Somali region, and external threats, such as radical Islamists movements involved in terrorist activities in the Sub-Saharan African region, have reinforced the ruling government’s decision to strictly regulate political activities. According to Shiferaw, civil wars have not occurred since 1991 in Ethiopia, which makes it one of the most stable countries in Eastern Africa.

Furthermore, scholars such as Alegaz brought to light the political significance of agriculture. Both famines in 1973 and in 1991 triggered the downfall of Ethiopian regimes. Therefore, the EPRDF instituted food security as one of its principal priorities to ensure its survival. Despite the party’s narrow core support base, it increased its legitimacy by focusing developmental capital and efforts on the dominant section of the population in need of investment, which are smallholder farmers.
Chapter 4: An integrated approach to determine economic growth in Ethiopia

Many academics have investigated the potentiality of institutional and geographical factors contributing to the recent phenomena of rapid economic growth in low income countries. Nonetheless, scholars are not unanimous regarding the underlying causes of such sustained economic growth. According to Rodrik, “partly endogenous” determinants, such as institutions, and “exogenous” determinants, such as geographical factors, need to be considered in the analysis of Africa’s economic growth (Rodrik et al., 2004: 5). However, academics cannot come to agree on the hierarchical importance between institutional and geographical factors.

Ethiopia’s “growth miracle” is an interesting case of analysis demonstrating how various development theories need to be considered in one single framework. When taken separately, each theory brought forward in previous chapters failed to give an overall explanation for Ethiopia’s rapid economic performance. The EPRDF government outlined and implemented development policies that do not entirely conform to most theoretical assumptions studied in this paper. The “Ethiopian way of development” requires one unique framework integrating different perspectives that would complement each other. Collier’s approach consists of a combination of factors that determine why low income countries are trapped in poverty. Therefore, Collier’s four trap theory will be used as a basis that incorporates different types of developmental assumptions. However, when applied to the Ethiopian case of growth, the paper will reveal how the EPRDF government succeeded in escaping from these traps.
4.1. The four poverty trap theory, a theoretical framework that combines institutional and geographical factors that impede or accelerate growth

Some countries remain poor despite all efforts to develop “good” institutions and some with extractive institutions become rich. This is why geographical factors need to be combined with institutional factors in order to englobe the full complexity of economic development in poor countries. According to Gore, poverty traps often manifest in LDCs and causing persistent poverty. Poverty traps are vicious circles, in which economic growth affects the level of poverty in a given country and “where the majority of the population are very poor, the incidence of poverty also affects economic growth” (Gores, 2011:3).

Within the neoliberal perspective, Collier envisaged the possibility for “four poverty traps” that arise in low income countries. This could help establish a theoretical frame that would equally consider institutional and geographical factors in the process of economic growth. Although his work echoes Sachs poverty trap in The End of Poverty, it differs significantly in the understanding of the function of foreign aid in the development process. Indeed, Collier affirms that foreign aid alone will never be enough to trigger economic performance in low income countries. Other scholars hold a statist approach by arguing that structural impediments to economic development established by poverty traps can be overcome through state intervention (Martinussen, 1997: 58-9).

The first trap tackles the consequences of internal conflicts on growth and development. Collier argues that: “Civil war is development in reverse” (Collier, 2007: 27), because it is costly in terms of financial and human capital and causes the economy to stagnate. Most poor countries are or were until recently in a situation of internal conflict. Low income, slow growth and dependence on primary commodity exports are the three main elements that cause countries to be trapped in repetitive cycles of internal conflicts.

The second poverty trap deals with natural resources. Economic opportunities that could have been achieved through resource rents are considered to be the result of ineffective management rather than a “natural resource curse”. Due to large surpluses produced through natural resources, some autocracies generate more growth than some democracies. Nonetheless, in the long term, these surpluses are frequently embezzled by state leaders who tend to center their effort in maintaining their power by buying votes: “Oil and other surpluses
from natural resources are particularly unsuited to the pressure generated by electoral competition” (Collier, 2007: 43). Moreover, while the electoral process is corrupt, it corrodes the system of checks and balances as well as the system of wealth redistribution. The third poverty trap demonstrates that geography is equally as relevant as institutional factors in understanding patterns of economic development in low income countries. Economic difficulties induced by geographical dispositions, and in particular obstacles faced by landlocked countries in accessing international trade, are analyzed through causal relationships. According to Collier, exports are essential to economic growth. Political economy literature often acknowledges that sea-based transport is cheaper than land-based transport and allows easier integration to the world economy. Development in landlocked low income countries can be entirely dependent on diplomatic relations with neighboring countries for overseas trade.

The last “poverty trap” considers the consequence of “bad governance in a small country” (Collier, 2007: 5), which can be tenacious in states governed by leaders who are only seeking the maximization of their own profit: “leaders of many poorest countries in the world are themselves among global superrich” (Collier, 2007:65). This is the case of many African countries, such as Liberia and Somalia. These leaders stay in power for long periods of time and the repression of reformers cause turnarounds to be rare. Furthermore, opportunities for reforms do not always generate much support or even interest from society. Within these countries, Collier identifies three conditions necessary to provoke more regular interest in turnarounds: a large population; a recent emergence from an internal conflict; and a high proportion of the population having had secondary education.

Geographical determinants specific to Ethiopia could have constrained it to multiple poverty traps described by Collier. Its tropical climate, and in particular its unpredictable rainfall, cannot be relied on for high agricultural productivity. However, Ethiopia’s EPRDF government has found a means of providing irrigation through the national construction of the Grand Renaissance Dam. Moreover, Ethiopia succeeded in establishing a multi-modal transport system and negotiated access to ports with neighboring countries in order to increase trade volumes abroad, thus overcoming the third poverty trap. Furthermore, Collier’s first trap in dealing with civil conflicts has been reversed in Ethiopia through the restoration of relative peace with its neighboring countries, since 2002. The Ethiopian state has also achieved internal stability with the instauration of “good” political and economic institutions under the governance of the EPRDF, which strived to redistribute resources equally. An explanation of Ethiopia’s improvements in economic performance intertwines solutions to geographic
difficulties brought forward by Collier, as well as neoliberal principles of agricultural and market liberalization associated with democratic peace.

4.2. Discussion on the Ethiopian case

This research paper claims that Ethiopia’s growth miracle defies the ‘one-size fits all’ approach to economic development. This claim derives from the analysis of observations showing how Ethiopia, still considered a poor country, managed to become one of the top five fastest-growing economies of the world. Development theories cannot yet satisfactorily explain this phenomenon. The thesis outlines the key factors that have influenced economic growth and development in Ethiopia over the past two decades and analyses various viewpoints covering the Marxist, critical, NIE and statist perspectives on economic development. It then discusses the influence of geography and institutions on economic development and exposes the efficiency or limitations of these theories in the light of Ethiopia’s economic success.

Modernisation, including “the big push” put forward by Rosenstein-Rodan, may be defined as structural change leading to increased industrialization, involving massive investment in infrastructures, education and training. Both Lewis and Chenery made the assumption that the pattern of development was identical in all countries and agreed that the relocation of agricultural workers to the manufacturing sector is the driving force of economic growth. Patterns of development related to the Modernisation theory influenced leaders of many developing countries, especially in Sub-Saharan Africa, to concentrate on policies that promoted industrial investment. However, these policy choices were likely to be to the detriment of the agricultural sector. According to a World Bank report published in 2000, a considerable number of economies in the Sub-Saharan region of Africa have had “slow and even negative growth since the early 1970s”.

Agriculture was the principal economic sector responsible for Ethiopia’s initial economic take off. However public investments in health and education led services to overtake the agricultural sector during the second phase of economic performance. The EPRDF introduced liberalisation policies in the early 1990’s, which is the point that correlates with the hypothesis that the economy began to accelerate. However there is little evidence to justify that modernisation theory can fully explain this initial stage of growth.
The Ethiopian government is wary of outside influence and all activities concerning international trade or assistance from NGO’s that have to be tightly controlled by state authorities. This attitude could suggest Marxist traditional thinking may have influenced the ruling party in trying to protect its citizens’ interests from the noxious effects of globalisation. The liberalisation of the market did not put an end to the monopoly of state-owned firms and many privately-owned companies were faced with unfair competition. Jayne similarly refers to state-owned businesses receiving ‘preferential treatment’ in the form of grants and facilities for foreign exchange. However, state intervention in the market reveals the planned nature of Ethiopia’s macroeconomic policies, which allows the EPRDF government to control rents with the aim of ensuring an equal distribution of income.

The statist approach endorses state intervention in economic development. The EPRDF’s developmental state model was inspired by East Asian countries. However, Shiferaw in agreement with Rodrik maintains that contrary to most East Asian states, where rapid growth is based on manufacturing, the Ethiopian government promoted rural development, agriculture and food security. Notwithstanding the ERPDF’s efforts to develop the economy, the World Bank perceives Ethiopia as an “authoritarian developmental state” and its government does not rank high on World Governance indicators.

The following part of the discussion will focus on the way geographical factors have impacted Ethiopia’s economic growth. The country lacks natural resources, which paradoxically helped it to avoid what is often referred to by scholars, such as Sachs, as ‘the curse’, making Ethiopia less vulnerable to the volatility of world prices with cycles of booms and recessions. Collier’s ‘third poverty trap’ evokes the difficulty of landlocked countries in gaining access to overseas markets and maintains that these countries are obviously dependent on the economic situation of neighbouring countries. Contrary to this perspective, the EPRDF government has found solutions to overcome this ‘trap’ through peacebuilding and negotiations.

The final role of this discussion considers the importance of institutions in economic development. Acemoglu, Johnson and Robinson argue that political power and the distribution of resources requires interaction of economic and political institutions in order to stimulate economic development. However, Acemoglu and Robinson agree that the nature of institutions, “inclusive” or “extractive” can help or hinder economic growth. Within this perspective, Ethiopia’s institutions can be seen as absolutist, whereas scholars of the Marxist school of thought would maintain that the country’s institutions are inclusive and try to satisfy the needs of the people through pro-poor structural programmes.
Conclusion

A thorough analysis of academic literature presented in this research, combined with empirical evidence based on Ethiopia’s miracle growth, proves that there is no simple or unique approach to understanding how sustainable economic growth in poor countries can be stimulated and accelerated. Earlier efforts to reduce poverty and spur economic growth were generally based on classic development theories, encompassing various models of development. The general assumption was that the “one-size fits all” concept could be applied to generate development in any country. However due to the limitations exposed in each of these theories when examining Sub Saharan countries in general and when applying these theories to the case of Ethiopia in particular, it can be observed that economic development is a complex and multidimensional process, which needs to take all economic development goals and policies specific to each individual country, into consideration. Ethiopia stands out as one of the few countries of Sub-Saharan Africa to have achieved accelerated and sustainable growth over a short period of time, while avoiding any considerable increase in inequalities. This thesis endorses the idea that the Ethiopian government adopted and then adapted classic development theories to ensure they would help achieve the country’s economic goals, thus creating “the Ethiopian way of development”.

As Ethiopia is considered to be an unorthodox model of growth, it presents an interesting case for determining factors that can impact economic growth and development. This research paper explored viewpoints covering the Marxist, NIE and Statist perspectives on political economy while examining the influence of geographical and institutional factors on the development process. As already pointed out, Robinson and Acemoglu consider institutions to be the most effective engines of growth, whereas Diamond maintains that geography is the fundamental element that influences growth.

It was necessary to analyze Ethiopia’s pattern of growth within a time frame, spanning from the early 1990s up to 2015 to help understand its choices of policies and reforms. The government’s PASDEP (PASDEP, from 2005 to 2010) and the GTP (GTP, since 2010) generated high growth performance. The primary aim of these plans was reduce poverty by modernizing the agricultural sector and boost production with the development of modern technology and improving infrastructures and government structures.
The ‘Modernization theory puts forward the notion that free trade is necessary to enhance economic growth. Therefore, the EPRDEF government introduced liberalisation policies in the 1990s, recognizing the need for a market-based economy, however it does not fully respect the principles of free market policies recommended by most international financial organisations. Following the Marxist thinking that globalization leads to a rent-seeking and land-grabbing, the Ethiopian government is very wary of outside influences, implying that all activities concerning international trade or assistance from NGO’s have to be tightly controlled by state authorities. This attitude could provoke market failure.

The strategies and policies applied by the Ethiopian government known as ‘The Ethiopian Way’ have indeed induced a considerable increase in economic growth in the country. However, continuing sustainable development is not an easy task and indicators point to a possible slow-down in performance during the coming years, despite hopes to enter the lower middle income group by 2023.

Today there is growing unanimity among scholars that economic development process will have to be studied from multiple angles and in the light of structural changes and trends. There is no one single cause for underdevelopment and poor countries will have to find their own specific way to break out of the ‘poverty trap’.
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