Department of Public Policy
CENTRAL EUROPEAN UNIVERSITY

RETHINKING DEVELOPMENT: INTEGRATING NEW STRUCTURAL ECONOMICS, INSTITUTIONAL PERSPECTIVES, AND INNOVATION-DRIVEN POLICIES FOR SUSTAINABLE INDUSTRIAL TRANSFORMATION

By
Sashka Teodosievski

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Supervisor: Daniel Thomas Myron Large

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Date: 17 June 2025

Name: Sashka Teodosievski

ABSTRACT

Can developing countries achieve sustainable industrial transformation without addressing their unique structural challenges?

This thesis examines Ethiopia's industrialization through the lens of Justin Lin's New Structural Economics (NSE), which promotes state-led development aligned with a country's comparative advantage, with a specific focus on the leather sector. The research investigates why Ethiopia has not fully achieved industrial transformation, even after major policy initiatives. Using qualitative methods - semi-structured interviews, document analysis, and quantitative governance and trade data - the study finds that institutional fragility, limited state capacity, and weak domestic linkages have hindered progress. Chinese foreign direct investment (FDI) and export policies were present, but their developmental impact was shaped by internal political dynamics and elite control over policy implementation. The findings highlight that effective industrial transformation depends not only on sound economic strategies but also on strong governance structures, inclusive institutions, and sustained political commitment.

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LIST OF ABBREVIATIONS

AGOA – African Growth and Opportunity Act,

EIC – Ethiopian Investment Commission,

EPRDF – Ethiopian People's Revolutionary Democratic Front,

FDI – Foreign Direct Investment,

GTP – Growth and Transformation Plan,

MoI – Ministry of Industry,

NSE – New Structural Economics,

RCA – Revealed Comparative Advantage,

SEZ – Special Economic Zone,

UNIDO – United Nations Industrial Development Organization,

WGI – Worldwide Governance Indicators

INTRODUCTION

Real development goes beyond GDP growth. It requires structural transformation, shifting labor from agriculture to industry and services, building productive capacity, and expanding infrastructure and education. Development is not just short-term economic expansion but a long-term, state-led process shaped by political and institutional forces (Leys 2009, 109–10).

This thesis rethinks development by integrating New Structural Economics (NSE), institutional perspectives, and innovation-driven policy. NSE, developed by Justin Yifu Lin, argues that structural transformation in developing countries should be state-guided, aligning industrial policy with evolving comparative advantage and supported by infrastructure, innovation, and targeted institutional reform (Yifu Lin and Wang 2017, 1–7). While NSE emphasizes economic coordination, its success in practice depends on deeper political dynamics.

In late-developing countries like Ethiopia, politics is the foundation of industrial outcomes. It determines how policies are designed, who benefits, and how effectively they are implemented. Politics shapes institutional capacity, influences foreign partnerships, and mediates tensions between national goals and external pressures.

Ethiopia illustrates this complexity. The government has pursued a hybrid strategy, combining industrial parks, FDI attraction, and targeted sectoral support, drawing from multiple models rather than a single framework (Leys 2009, 107–34). Its industrial ambitions, including cooperation with China and focus on sectors like leather, have produced unequal outcomes (Leys 2009, 112–13), revealing a persistent disconnect between planning and transformation. This gap comes from less from flawed policy design and more from the political and institutional conditions under which development has been pursued.

Ethiopia is chosen as a case study for its early adoption of NSE-aligned industrial policy under Meles Zenawi and its strategic relationship with China. Using a qualitative case study approach, the research draws on document analysis, trade and governance data, and expert interviews with policymakers and practitioners to examine how politics has shaped Ethiopia's industrial trajectory. The central research question is: Why has sustainable industrial transformation not been fully achieved in Ethiopia, despite efforts to implement development strategies aimed at this goal?

and two sub-questions:

1. To what extent has Chinese investment contributed to Ethiopia's industrial transformation, and what structural or institutional factors have limited its developmental impact?
2. Has Ethiopia been able to effectively follow the Flying Geese model by building on its comparative advantage in sectors like leather, and what have been the main challenges?

To better understand Ethiopia's developmental trajectory, it is essential to first situate it within the broader literature and historical patterns of global industrialization.

LITERATURE REVIEW

Modernization theory became influential in the 1950s and 1960s. It proposed that societies progress from traditional to modern stages through industrialization, education, and institutional reform (Leys 2009, 109–110). According to this view, economic growth would naturally lead to democracy and inclusive institutions. However, critics noted that the theory ignored the impact of colonial history and unequal global trade, which left African countries such as Ethiopia dependent and underdeveloped (Leys 2009, 112). The Arusha Declaration of 1967 in Tanzania reflected a shift in thinking, as it criticized externally driven development that favored foreign interests and local elites.

Further criticism came from Acemoglu and Robinson, who argue that authoritarian governments can experience economic growth without improving their institutions. In many cases, elites block meaningful reform to protect their own power (Acemoglu and Robinson 2013, 443–445). These critiques are useful for understanding why Ethiopia's development efforts have faced persistent challenges. This thesis draws on these perspectives to examine how institutional weakness and political interests have limited industrial transformation.

The Washington Consensus promoted liberalization, privatization, and a reduced role for the state in economic planning. It encouraged countries to rely on market forces and private actors to deliver public goods (Yifu Lin and Wang 2017, 61) (Acemoglu and Robinson 2013, 445). Critics have shown that this approach often overlooked structural constraints and undermined local policy ownership (Yifu Lin and Wang 2017, 59). In response, the China Model emerged as an alternative that focuses on state-led development, long-term planning, and investment in infrastructure and

production capacity (Poon 2014) (Elsje 2015, 291). This model combines trade, investment, and aid and is particularly influential in parts of the Global South (Yifu Lin and Wang 2017, 59). It is also associated with strong central leadership and a form of developmental authoritarianism (Acemoglu and Robinson 2013, 441).

Although China's development path has attracted international interest, many scholars emphasize that its model is deeply tied to its unique political and historical context and therefore not easily transferable (Elsje 2015, 290–294). Ethiopia's experience under the leadership of Meles Zenawi illustrates both the appeal and the limits of adapting elements of the China Model. This study analyzes how Ethiopia interacted with these competing frameworks and shows how local political and institutional conditions shaped the outcomes of its development efforts.

To further understand Ethiopia's industrial strategy, this study also considers the evolution of comparative advantage in economic thought. Adam Smith, in The Wealth of Nations, introduced the idea of absolute advantage. He argued that countries should specialize in producing goods that they can produce more efficiently than others (Smith 1976, 1:457). David Ricardo, in Principles of Political Economy and Taxation, developed the theory of comparative advantage. He showed that trade is beneficial even when one country is more efficient in producing all goods, as long as each country focuses on goods they produce at a lower opportunity cost (Ricardo 2004, 1:140).

Justin Yifu Lin offers a modern reinterpretation in his theory of NSE. In Going Beyond Aid (2012), Lin introduces the concept of latent comparative advantage. He explains that some industries in developing countries can become competitive if the state provides support through infrastructure, skills training, and coordination (Yifu Lin and Wang 2017, 23). Lin emphasizes that governments

must play an active role in enabling structural transformation, particularly for late-developing economies.

This thesis uses Lin's framework to assess Ethiopia's efforts to industrialize by focusing on sectors such as leather. It investigates whether policy strategies aligned with the country's comparative advantage and explores the institutional and political factors that have influenced success or failure. In doing so, the study contributes to ongoing debates about the relevance of classical and modern development models in the African context.

HISTORICAL BACKGROUND

Industrialization across continents: Lessons from history and the window for opportunity

Industrialization transformed the global economy, beginning in Britain and spreading in waves across the world. It started in Britain in the mid-18th century (Acemoglu and Robinson 2013, 32) but remained relatively closed for many years due to political decisions by the British government, which banned the export of machines, skills, and technical knowledge to maintain its technological edge. The spread of industrialization to Belgium and France was facilitated by proactive political efforts, as their governments deliberately invited British experts and promoted technology transfer to catch up. In Germany, progress was initially slow because the country was fragmented into many small, independent states with their own laws and economic barriers (Chang 2002, 35). It was only after political unification in 1871 that significant industrial growth began, driven by state-led development in railways and heavy industry (Yifu Lin and Wang 2017, 31).

In the United States, industrialization began in the 1820s and was strongly influenced by political dynamics in Europe. Many immigrants left Europe due to political unrest, especially after the 1848 revolutions, and brought valuable skills, capital, and industrial knowledge with them (Yifu Lin and Wang 2017, 31), helping the U.S. become the world's most economically innovative nation (Acemoglu and Robinson 2013, 33). Japan, under the political leadership of the Meiji Restoration, opened to trade in 1854 and rapidly industrialized by adopting foreign machines, sending officials abroad to learn, and hiring foreign experts. The political will to modernize the country was central

to its success, making Japan the first industrialized nation in the East (Yifu Lin and Wang 2017, 33–37).

The spread of industrialization followed a regional pattern, creating opportunities for latecomers like sub-Saharan Africa. As countries like China, India, and Brazil moved into more advanced industries, they created space for sub-Saharan Africa to join the global manufacturing wave (Yifu Lin and Wang 2017, 19). But for Africa to benefit, strong political leadership and stable institutions were needed to attract industries and create jobs (Yifu Lin and Wang 2017, 19). This shift followed a clear pattern over time. Japan led in manufacturing exports from 1965 to 1990. In the 1970s, Korea, Taiwan, Singapore, and Hong Kong grew rapidly. In the 1980s, Indonesia, Malaysia, the Philippines, and Thailand joined the wave. In the 1990s, China and Vietnam became major players (Yifu Lin and Wang 2017, 41–42). In textiles, Japan led first, then Korea in the 1980s, and China in the 1990s (Yifu Lin and Wang 2017, 34). As China's costs rose, Vietnam and Indonesia began to catch up by attracting labor-intensive industries. More recently, parts of Africa, especially Ethiopia, have been seen as potential next stops for industrial relocation.

China's industrial transformation illustrates how latecomer countries can build a strong manufacturing base before shifting toward services. In 1978, 79% of China's workforce was employed in agriculture, and per capita income was only 154 dollars, which was less than one third of the sub-Saharan Africa average at the time (Yifu Lin and Wang 2017, 45). Over the next few decades, China experienced a major industrial transformation. It first focused on labor-intensive industries, then gradually moved to more advanced sectors as its comparative advantage changed (Yifu Lin and Wang 2017, 45).

As countries became more industrialized, people's incomes grew faster. In the past, it took 1400 years for income to double. During early industrial times, it took 70 years. Today, it takes about 35

years (Yifu Lin and Wang 2017, 30). By 2007, China's capital to labor ratio in manufacturing increased from 0.4 in 1985 to nearly 4.0, reflecting a shift toward more advanced and capital-intensive production (Yifu Lin and Wang 2017, 62).

China's industrial success was shaped by strategic state policy, selective openness, and coordinated foreign investment. Before 1990, China limited foreign investment to export factories and kept its domestic market mostly closed (Naughton 2007, 403). In 1999, China maintained protective tariffs on various imports, including automobiles and agricultural products. Foreign firms were encouraged to share technology, partner with local suppliers, limit operations in certain market segments, and form joint ventures with Chinese companies (Wolf and Cheng 2018, 30–31).

China later evolved from an FDI recipient to a global investor, supporting industrialization in other developing countries, including in Africa. Foreign invested firms played an important role in this process. They contributed 20% of China's tax revenue, accounted for 55% of its trade, and produced more than 80% of its high-tech exports. After recognizing the importance of inclusive economic institutions for growth, they began reforming the economy (Acemoglu and Robinson 2013, 423). China's 2001 "Go Global" strategy marked a key shift from attracting foreign investment to encouraging outward investment by both state-owned and private firms. However, this growth occurred under extractive political institutions that preserved tight centralized control while allowing limited economic liberalization (Acemoglu and Robinson 2013, 426). Over time, China has gradually moved toward more inclusive economic institutions, with continued growth supported by cheap labor and access to foreign markets, capital, and technology (Acemoglu and Robinson 2013, 439). This strategy directed foreign direct investment (FDI) to countries like Ethiopia (Wolf and Cheng 2018, 8–11). This strategy supported industrialization abroad and helped China move up the value chain, while also create opportunity for Ethiopia to create jobs, reduce

poverty, and advance along the value chain in a win-win (Brautigam 2009, 279) approach (Yifu Lin and Wang 2017, 6), following the Flying Geese model first introduced by Akamatsu (1962), in which latecomer countries industrialize by following the path of more advanced economies (Kojima 2000, 376) (Elsje 2015, 306).

China became a major development partner for Africa by using infrastructure investment as an economic and political tool. Between 2001 and 2010, it financed 34% of all infrastructure projects on the continent, with over half going to electricity generation and transmission (Yifu Lin and Wang 2017, 62). These investments supported development (Wolf and Cheng 2018, 10) and built political ties. Chinese investors prefer stable governments, good infrastructure, and open markets (Poon 2014, 9).

China's approach to investment in Africa has emphasized technology acquisition, industrial development, and commercial engagement. It used export-oriented FDI to access technology while supporting key domestic industries (Wolf and Cheng 2018, 30–31). Since 2000, most Chinese investment has come through vertically integrated firms that manage production closely. Consistent with its state-business model, China also included entrepreneurs in official delegations to strengthen business ties and expand cooperation (Bräutigam 2008, 67).

But, as capital intensity increased, manufacturing employment declined globally. In the United States, the share of factory jobs dropped from 17% to 9% (Yifu Lin and Wang 2017, 48). In Japan, it fell from 27% to 24% between 1980 and 2024 (Statistics Bureau, Ministry of Internal Affairs and Communications and Japan 2024). China experienced a similar trend. Industrial employment as a share of total employment increased from 23% in 2000 to a peak of 30.3% in 2012, reflecting the country's manufacturing boom. However, after 2012, this share began to decline, falling to 29.3%

by 2015 (World Bank Group 2025). This turning point in 2012 marked the beginning of China's gradual shift toward more capital-intensive and service-oriented economic activities.

China's shift toward a service economy followed, rather than preceded, its industrial boom. By 2015, China's service sector had grown to 51% of GDP (Yifu Lin and Wang 2017, 45–47), and it surpassed 56% by 2024. This shift to services followed decades of manufacturing-led growth, reinforcing the idea that services can only drive development effectively after a solid industrial foundation has been established (Chang 2003, 13–68).

This broader trajectory shows that China's development was shaped not only by capital and labor but also by its growing ability to innovate and upgrade its industrial base. Growth under extractive institutions tends to be easier when creative destruction is not required (Acemoglu and Robinson 2013, 440). Rather than depending only on market forces and disruptive innovation, the Chinese government combined rapid adoption of existing technologies and heavy investment with long-term planning and substantial funding for research and development (Acemoglu and Robinson 2013, 439). This approach shows that real transformation requires the state to take risks and lead innovation, rather than depending entirely on the private sector to build new industries and technologies (Mazzucato 2013, 28). Achieving this depends on active coordination among government agencies, industry, and research institutions, which forms the foundation for sustained innovation and structural change. Policy initiatives such as the Medium and Long-Term Plan for Science and Technology Development (2006–2020) and Made in China 2025 prioritized technological self-reliance and reducing dependence on foreign innovation (Segal 2019, 36–42). Special Economic Zones (SEZs) and industrial parks acted as experimental grounds where institutional learning and targeted support helped nurture key sectors (Yuen Yuen Ang 2016, 5–7).

China’s experience demonstrates that innovation requires ongoing political commitment, coordinated policies, and strong institutions to successfully guide structural economic change.

Against this global backdrop, development economists have proposed frameworks such as NSE and the Flying Geese model to explain how latecomer countries can industrialize. These models offer insights into both China's success and Ethiopia's potential pathway.

Catching the next wave: The role of SEZs in NSE, China, and Ethiopia’s place in the Flying Geese model

The Flying Geese model illustrates how countries industrialize by progressing from the export of raw materials to the domestic production and export of manufactured goods (Akamatsu 1962, 11). As more advanced economies shift into higher-value sectors, labor-intensive industries relocate to countries with lower production costs and abundant labor (Yifu Lin and Wang 2017, 29). China followed this trajectory, moving from basic to more advanced manufacturing as its skills base and technological capacity grew (Evans 1995, 15). Its large scale and similar development stage to many African nations position China as a strategic partner in this process. While China and Africa differ in resource endowments, they share comparable institutional (Hameiri and Jones 2018, 581) and human capital challenges, creating opportunities for complementary development (Wolf and Cheng 2018, 100–101). For centuries, China maintained a centralized state, which enabled it to implement long-term development strategies (Acemoglu and Robinson 2013, 231). Ethiopia also established centralized institutions as early as the 13th century, laying the foundation for a strong, but often extractive, state structure (Acemoglu and Robinson 2013, 178). Ethiopia later emerged as a key destination for industry relocation, supported by low labor costs and growing Chinese investment, reflecting the Flying Geese model in practice (Yifu Lin and Wang 2017, 99).

NSE builds on this logic by emphasizing the role of the state in facilitating structural transformation (Yifu Lin and Wang 2017, 3) through support for sectors with latent comparative advantage, industries that are not still globally competitive but have the potential to be with the right policies and investment (Yifu Lin and Wang 2017, 23). China's own development experience illustrates this trajectory as it moved from low-cost manufacturing to advanced industry and services through a deliberate mix of market incentives, state planning (Yifu Lin and Wang 2017, 47), and strategic FDI attraction, learning from Japan, Korea, and Taiwan (Evans 1995, 15). Rising wages and industrial upgrading in China pushed labor-intensive industries into countries like Ethiopia, which emerged as a new center in the evolving global production network (Yifu Lin and Wang 2017, 99). Supported by Chinese infrastructure investment, industrial parks, and SEZs, Ethiopia represented a critical test case for the Flying Geese model in Africa. Whether it captured long-term benefits depended on its ability to strengthen institutions, align policies with comparative advantage, and build productive linkages. These were conditions that NSE identified as essential for sustained industrialization (Yifu Lin and Wang 2017, 14–16, 49–50, 86).

Special Economic Zones (SEZs) are a key policy tool in NSE to support structural transformation based on a country's comparative advantage. NSE sees SEZs as a way for governments to attract investment, upgrade industries, and create jobs through targeted support (Brautigam, Xiaoyang, and Xia 2018, 43–44). With simplified regulations and better infrastructure, SEZs lower business costs and bring in labor-intensive industries (Yifu Lin and Wang 2017, 135). They also enabled countries to shift from import substitution to export-led growth, while boosting employment, increase exports, reduce poverty, raise incomes, and foreign exchange. In addition, they promoted skills development, technology transfer, and economic diversification (Zeng 2010).

The extent to which SEZs contributed to national development depended on early strategic choices, such as which sectors were supported, how domestic firms were included, and how trade policy and market access were structured (Yifu Lin and Wang 2017, 138–139). These choices were shaped by political priorities (Chang 1993, 121), institutional interests, and the broader distribution of power within the country (Khan 2019), and were necessary to follow the geese before they flew too far ahead.

While these models highlight external trajectories and structural opportunities, understanding Ethiopia's transformation also requires a deeper look at its internal institutional foundations and development thinking.

The roots of transformation: Institutions, and development thinking

Today, it is clear that a country's development potential must be understood through its unique historical trajectory and its specific relationship with global powers (Leys 2009, 115). Development is shaped not only by a nation's past but also by social forces such as class, power, culture, and institutions (Leys 2009, 114). From the late 1950s and 1960s, Ethiopia embraced modernization focused development thinking, shaping early policy directions. Implementation challenges led to greater focus on state capacity, institutional development, and skills training (Leys 2009, 109). The UN Development Decades of the 1960s and 1970s also influenced Ethiopia's goals, setting ambitious income growth and industrialization targets, often higher than those of richer nations (Leys 2009, 107), while shifting the focus toward reducing poverty, inequality, and unemployment (STEPS Centre 2009). These early efforts laid the groundwork for later industrial policies and state-led development strategies (Leys 2009, 109).

While early development efforts laid the groundwork for industrial strategies, long-term progress depends on the quality of political and economic institutions. Political institutions determine who holds authority, how responsive and accountable governance is, and whether the state has the capacity to implement policies effectively (Acemoglu and Robinson 2013, 42). Economic institutions, in turn, structure the incentives that drive individual and collective behavior. They influence whether people are motivated to invest, innovate, acquire skills, and engage in productive activity. Crucially, the quality of economic institutions is not independent of politics, they are created and sustained through political processes (Acemoglu and Robinson 2013, 43).

Where political power is concentrated in the hands of elites, institutions become extractive, serving narrow interests and denying broader participation. Historically, absolutism in many nations, including Ethiopia, concentrated wealth and power in emperors and nobles, leaving the majority impoverished. Such extractive systems created contested politics, low growth, and instability (Acemoglu and Robinson 2013, 344), undermined law and order, investment, education, and innovation, ultimately contributing to state failure (Acemoglu and Robinson 2013, 343). Since 1991, the state-led development model has continued this pattern of elite control. Most Ethiopians still lack access to quality education, electricity, and healthcare (Acemoglu and Robinson 2013, 237), while political power, trade policy (Elsje 2015, 291), and institutional design remain in the hands of ruling elites, shaping both the direction and the long-term sustainability of industrial development (Acemoglu and Robinson 2013, 199, 236).

Inclusive development, by contrast, relied on institutions that protected property, ensured fairness, and encouraged investment in skills and innovation, supported by political institutions that shared power and maintained law and order. (Acemoglu and Robinson 2013, 368, 376, 343). While

extractive systems could produce short-term gains under centralized rule, long-term growth required education, innovation, and creative destruction (Acemoglu and Robinson 2013, 215). Elites often resisted these changes, fearing loss of control, which continued instability (Acemoglu and Robinson 2013, 429). Institutions are not passive frameworks for development, they actively shape and are shaped by the development process itself (Chang 2008, 19). This dynamic role of institutions helps explain why sustained transformation requires not only good policies but also inclusive and adaptive institutional frameworks.

Building on this institutional history, the following section explores how Ethiopia's political leadership engaged with the Chinese model and navigated the implementation of its industrial strategy.

Politics and the Chinese Model in Ethiopia

> *"HISTORY is not a destiny, and vicious circles are not unbreakable, but they are resilient. They create a powerful process of negative feedback, with extractive political institutions forging extractive economic institutions, which in turn create the basis for the persistence of extractive political institutions."*
>
> (Acemoglu and Robinson 2013, 365)

Ethiopia's development was severely constrained by a long history of extractive institutions that concentrated political and economic power narrowly. The 13th-century Gult system enabled nobles to extract 50 to 75% of farmers' output, far exceeding European feudal demands and limiting broad development (Acemoglu and Robinson 2013, 178). From 1624 to 1773, Ethiopian emperors ruled absolutely, centralizing power without checks and concentrating wealth among a few elites (Acemoglu and Robinson 2013, 234, 216). After defeating Italy in 1896, Ethiopia retained these centralized institutions but continued with extractive governance (Acemoglu and Robinson 2013,

237). The Solomonic dynasty ruled Ethiopia until 1974, when the Derg, a Marxist military regime supported by the Soviet Union (Elsje 2015, 297) and Cuba, took power and declared a socialist state. Despite revolutionary claims, the Derg replicated imperial power structures, using violence and causing repeated famines, worsening instability (Acemoglu and Robinson 2013, 358–361). Haile Selassie's failure to respond to famine weakened his rule, while Mengistu used famine politically to suppress opposition (Acemoglu and Robinson 2013, 360–363). Following the 1974 revolution, Ethiopia adopted a version of African socialism shaped by anti-feudal goals and the influence of foreign allies (Leys 2009, 127,130). Common features included state ownership of major sectors, cooperative trade practices, restrictions on foreign capital, and partnerships with China and the Soviet bloc, along with efforts to increase citizen participation in governance (Leys 2009, 127). During the Derg period, Ethiopia prioritized central planning and limited private enterprises (Leys 2009, 117). These policies hindered the emergence of productive business actors, while smallholder agriculture remained underdeveloped and reliant on basic tools (Leys 2009, 130), Ethiopia's efforts were also limited by the global capitalist system, which made it difficult for socialist strategies to achieve self-sustaining growth (Leys 2009, 107–34).

After the Derg's fall, the EPRDF (Ethiopian People's Revolutionary Democratic Front) ruled Ethiopia from 1991 to 2019, maintaining authoritarian control despite its democratic claims (Elsje 2015, 308–9). Following the 2005 election crisis, it stopped political reforms (Elsje 2015, 298) and focused on economic growth to legitimize its rule, believing people would accept less political freedom if their lives improved (Elsje 2015, 181). However, without inclusive institutions, Ethiopia remained stuck in cycles of elite domination and instability (Acemoglu and Robinson 2013, 343–344, 363).

Between 2005 and 2012, Meles Zenawi looked to China as a key development model (Elsje 2015, 296), as it aligned with his goal of maintaining political control and remain on power while achieving economic growth (Elsje 2015, 309). The EPRDF and China's Communist Party shared similar foundations, including Marxist principles, strong central leadership, and experiences with rural transformation, which helped build trust and encouraged close party-to-party cooperation (Elsje 2015, 299). This reflects how foreign policy is shaped by political history. China's long-standing relationship with Africa continues to support meaningful cooperation, mutual trust, and long-term industrial development (Interviews with development experts 2025, Interview response 9). Meles admired China's central control, which mirrored Ethiopia's kebele system used to govern rural areas, suppress opposition and deliver services (Elsje 2015, 300). China's transition to a state-led capitalist model (Elsje 2015, 300–302) resonated with Ethiopia's own trajectory, making it a practical guide for reform (Elsje 2015, 310–311).

Though Ethiopia did not fully replicate the model, shared values like strong leadership and rural control made it appealing (Elsje 2015, 303). Still, corruption, donor pressure, and weak institutions limited full adoption, and extractive politics persisted. After Meles's death in 2012, Ethiopian elites began exploring alternative models, with Turkey and India emerging as new development partners, shaping a more diverse South–South engagement landscape (Elsje 2015, 304, 310–311). This growing engagement with multiple partners reflects a broader trend in which South–South cooperation is based on shared political interests and historical relationships. China shares its development experience with African countries through these connections by offering guidance on industrial policies, development strategies, and building long-term partnerships rooted in mutual understanding (Interviews with development experts 2025, Interview response 15).

Despite this long history, this concentration of political power created ongoing cycles of political instability and economic stagnation, making meaningful and sustained industrial transformation difficult (Acemoglu and Robinson 2013, 343, 368, 376).

Having established the historical, theoretical, and institutional context of Ethiopia's industrial development, the following section outlines the research design and methodology.

RESEARCH DESIGN AND JUSTIFICATION

Timeframe and context

The core focus of this thesis is the period from 2008 to 2015, when Ethiopia implemented major industrial reforms, expanded industrial parks, and strengthened its cooperation with China. Earlier periods, including developments from 1960, after 1991 and after 2015, are included throughout the thesis to provide historical and comparative context in understanding of the country's industrialization path.

Operationalization of core concepts

Ethiopia's industrial policy frequently mirrors the core principles of NSE, particularly its emphasis on state-led planning and the strategic development of sectors with latent comparative advantage. However, it remains unclear whether and when NSE served as an explicit policy framework or whether the similarities are coincidental, shaped by pragmatic considerations rather than direct theoretical adoption. More importantly, the success of these strategies depends less on whether they follow NSE in theory and more on how well they are put into practice. To do this successfully, a country needs strong institutions to manage and coordinate efforts, stable political support to stay on course, and good governance to make sure plans are implemented effectively.

This blended strategy reflects the broader complexity of Ethiopia's industrialization process, which requires navigating domestic development goals while responding to external pressures and international influences.

Governance and institutional capacity

This concept is examined using the World Bank's Worldwide Governance Indicators (WGI), which include control of corruption, government effectiveness, voice accountability, political stability rule of law and regulatory quality, across three political periods: 1998–2018 (development-focused trajectory), 2018–2021 (political and policy shifts), and 2021–2023 (post-conflict recovery and institutional adjustment).

Comparative advantage

This concept is assessed using the Revealed Comparative Advantage (RCA) index, which shows whether Ethiopia has a trade advantage in certain products by comparing its share in national exports to its share in global exports. An RCA value greater than 1 means the country is relatively strong in that product. The RCA is calculated as: RCAij = (Xij / Xit) / (Xwj / Xwt), where Xij is the export of product j in country i, Xit is total exports of country i, and Xwj and Xwt are the global totals. This study focuses on products such as raw hides, skins, and leather, which play a key role in Ethiopia's industrial strategy and align with the principles of NSE.

Trade is important in this thesis because it shows if Ethiopia is using its comparative advantage strengths to grow its economy and move up the value chain. Based on Akamatsu's Flying Geese model, Ethiopia can benefit by taking over labor-intensive industries that are leaving advanced countries like China due to rising wages. By building on its comparative advantage, Ethiopia can gain foreign exchange, attract investment, and create jobs. Exporting also helps firms improve over time through learning-by-doing, which supports better quality and more innovation. The RCA helps show if this process is taking place and whether Ethiopia is moving beyond low-value exports.

Developmental disconnect

This section examines how Ethiopia's export tax policy and foreign investment shaped efforts to improve the leather sector, using the concept of developmental disconnect. This concept refers to the gap between policy goals such as encouraging local value addition and attracting foreign investment, and the practical realities of putting these policies into action. The analysis looks at export data, trade destination patterns, and the leather sector's share in manufacturing exports. It also explores institutional factors like coordination between agencies, availability of technical skills, and support for local firms. This approach helps assess how trade policy and industrial planning were applied in the context of Ethiopia's broader development objectives.

External drive, internal frictions

This concept was assessed by analyzing trends in Chinese investment in Sub-Saharan Africa, types of firms involved (SOEs and private), and China's engagement with Ethiopia. The study examined the creation of SEZs like the Eastern Industrial Zone (EIZ), the incentives provided by the Ethiopian government, and the growing role of private investors. The case of Huajian, a private Chinese firm in EIZ, was used to assess goals of export growth, job creation, and skill transfer.

Type of data, data collection and method of analysis

Building on the theoretical perspectives outlined in the previous sections, especially the discussion of NSE, institutional capacity, and foreign investment, this thesis adopts a qualitative case study approach to examine Ethiopia's industrial transformation, using academic literature, policy documents, Ethiopia's Growth and Transformation Plans, and reports from organizations such as

the World Bank and UNIDO. This is complemented by quantitative indicators and expert interviews.

Data were collected through desk research using academic databases (e.g., JSTOR, ScienceDirect), official government documents, and targeted keyword searches. Semi-structured interviews were conducted to explore key concepts. Interview insights are cited in the text using reference numbers (e.g., Response 1–15), which correspond to the full list of responses presented in *Table 9.* Each participant received a Study Information Sheet and Consent Form. The research followed the Tri-Council Policy Statement (TCPS 2: CORE 2022) and was approved by the Ethical Research Committee of the CEU Department of Public Policy.

RESULTS AND DISCUSSION

Institutional gaps and governance failures

Several public institutions contributed to sectoral development. The Ministry of Industry provided land, infrastructure, and financial incentives (Ministry of Industry 2005). The Ministry of Livestock and Fishery worked to improve hide and skin quality, and the Ministry of Trade managed export licensing and regulation (International Trade Administration and U.S. Department of Commerce 2018). The Leather Industry Development Institute (LIDI) offered training, consulting, and value chain support (United Nations Conference on Trade and Development 2018, 3), and the Ethiopian Investment Commission (EIC) streamlined administrative processes (Ethiopian Investment Commission 2023). International partners, such as the EU Trust Fund, supported capacity-building, while the Ethiopian Leather Industries Association (ELIA) facilitated market access and public–private dialogue (Directorate-General for International Partnerships 2024). These institutions largely operated within the framework of the Agricultural Development-Led Industrialization (ADLI) strategy, which emphasized local value addition and smallholder integration as the foundation for industrial growth (Elsje 2015, 304).

However, between 2005 and 2012, the government's economic priorities shifted markedly toward attracting FDI, allocating over one million hectares of land to export-oriented investors. This approach directly contradicted the ADLI framework and its emphasis on local development, creating significant challenges for leather sector institutions working to strengthen domestic value chains. The policy shift was reportedly driven by close relationships between senior officials and major international investors (Elsje 2015, 304), reflecting a broader reorientation toward quick

economic growth through foreign capital, with aim to become a middle income country as quickly as possible (Elsje 2015, 307), rather than gradual domestic industrialization.

Despite various policy efforts, Ethiopia's leather sector struggled due to institutional weaknesses and poor coordination among government agencies. Government offices struggled to coordinate because their roles were poorly defined and often overlapped, leading to confusion and slow progress. Many institutions also lacked the expertise and resources needed to carry out their responsibilities effectively, which weakened the impact of policy reforms (Xiaoyang 2019, 9–27). These challenges made it difficult to translate industrial policies into effective practice and to promote cooperation across different parts of the system, which was critical for supporting the sector's development (Brautigam, Weis, and Tang 2018, 163). These problems were not only technical but also deeply political. The government often approaches issues like power and resource control as if they are purely technical problems. This way of thinking overlooks the real roots of underdevelopment in Ethiopia, such as elite dominance in decision-making and institutions that serve narrow interests rather than the broader public (Ferguson 1994, 14).

However, these coordination challenges were part of a broader pattern of institutional fragility. While Ethiopia established a formal framework to guide industrial transformation, the effectiveness of governance lagged behind due to weak institutional capacity and limited accountability. Good governance must come from within and is built through domestic commitment (Brautigam 2009, 280–81). Both government effectiveness and regulatory quality were already negative in the late 1990s and early 2000s, underscoring a long-standing governance gap. For example, between 2008 and 2015, government effectiveness fell from –0.45 to –0.71, and regulatory quality declined from –0.90 to –1.06, reflecting growing difficulties in policy execution.

These issues persisted, with scores dropping further to –0.77 and –1.02 respectively by 2023 (*see Tables 1-4 for full indicator trends from 1998 to 2023).*[2]

Other governance dimensions also reflect this downward trend. Although Ethiopia's state has historically been highly centralized (Elsje 2015, 305), centralization alone did not translate into strong institutions. The Rule of Law score improved modestly from –0.91 in 1998 to –0.44 in 2018, but then fell again to –0.67 by 2023, revealing persistent weaknesses in legal enforcement, property rights, and public trust (Acemoglu and Robinson 2013, 243).

In particular, political stability and voice and accountability show a troubling pattern. Ethiopia's Political Stability score declined from –0.63 in 1998 to –1.27 in 2018, while Voice and Accountability dropped from –0.99 to –1.16. A major turning point during this time was the 2005 national election. Opposition parties gained support, and many Ethiopians participated actively. However, when results were disputed, large protests broke out, with violent crackdown. This moment marked a shift toward tighter political control (Elsje 2015, 305). These actions directly contributed to the falling scores in both governance indicators. The 2005 crisis clearly marked a preference for controlled development over pluralistic politics. This preference has deep historical roots in Ethiopia, going back to the period between 1624 and 1773, when the emperor held all power with no pluralistic institutions or limits on his authority (Acemoglu and Robinson 2013, 234).

This decline in governance affected not just politics but also Ethiopia's efforts at industrial transformation. Limited accountability and instability made it harder to coordinate policies, attract

[2] Data for Tables 1 to 4 are based on governance data from the World Bank's Worldwide Governance Indicators (WGI) database: https://databank.worldbank.org/source/worldwide-governance-indicators

investment, and support innovation, all of which are essential for sustainable development. Such challenges highlight the broader reality that political conditions are fundamental. Growth slows when political instability rises. Stability, low corruption, and effective governance form the foundation for industrial policy, investment, and implementation. Industrialization operates within a deeply political framework (Interviews with development experts 2025, Interview response 2).

Ultimately, this long-term decline suggests that while Ethiopia built a comprehensive institutional architecture for industrial policy, its capacity to implement, monitor, and adapt policies remained weak. As a result, the gap between design and execution continues to constrain the country's industrial ambitions.

Indicator	2008	2015	Change
Control of Corruption	-0,666399777	-0,476118475	↑
Government Effectiveness	-0,450209558	-0,712037623	↓
Political Stability and Absence of Violence/Terrorism	-1,732120633	-1,496942043	↑
Regulatory Quality	-0,899132013	-1,057965159	↓
Rule of Law	-0,706700683	-0,527201712	↑
Voice and Accountability	-1,30721271	-1,298305511	↑

Table 1: Worldwide Governance Indicators (WGI) for Ethiopia, 2008 – 2015 (Author's own compilation)

Indicator	1998	2005	2018	Change
Control of Corruption	-0,903203785	-0,772508383	-0,505317926	↑
Government Effectiveness	-1,190728784	-0,917718351	-0,666894257	↑
Political Stability and Absence of Violence/Terrorism	-0,63226676	-1,690383315	-1,274609208	↓
Regulatory Quality	-1,266358137	-1,11570704	-0,984722435	↑
Rule of Law	-0,908676982	-0,938896775	-0,444717616	↑
Voice and Accountability	-0,989250898	-1,238757253	-1,161892176	↓

Table 2: Worldwide Governance Indicators (WGI) for Ethiopia, 1998 – 2018 (Author's own compilation)

Indicator	2018	2021	Change
Control of Corruption	-0,505317926	-0,422021747	↑
Government Effectiveness	-0,666894257	-0,650382698	↑
Political Stability and Absence of Violence/Terrorism	-1,274609208	-2,183831215	↓
Regulatory Quality	-0,984722435	-0,941965938	↑
Rule of Law	-0,444717616	-0,623265862	↓
Voice and Accountability	-1,161892176	-1,071099281	↑

Table 3: Worldwide Governance Indicators (WGI) for Ethiopia, 2018 – 2021(Author's own compilation)

Indicators	2021	2023	Change
Control of Corruption	-0,422021747	-0,465061635	↓
Government Effectiveness	-0,650382698	-0,768662095	↓
Political Stability and Absence of Violence/Terrorism	-2,183831215	-1,969567776	↑
Regulatory Quality	-0,941965938	-1,021079421	↓
Rule of Law	-0,623265862	-0,670203269	↓
Voice and Accountability	-1,071099281	-1,060667157	↑

Table 4: Worldwide Governance Indicators (WGI) for Ethiopia, 2021 – 2023 (Author's own compilation)

Why comparative advantage is not enough?

Ethiopia's difficulty in moving up the leather value chain highlights a core challenge to structural transformation. While the country holds a strong comparative advantage in raw materials, this has not translated into competitiveness in value-added production. Between 2006 and 2015, Ethiopia consistently maintained a high Revealed Comparative Advantage (RCA) in raw hides and skins, peaking at 31.94 in 2007 (United Nations Conference on Trade and Development 2018, 13). In contrast, RCA values for finished leather products remained below 1 throughout the period, indicating the absence of comparative advantage in processed exports (Yifu Lin and Wang 2017, 132) (*see Table 5*).

RCA for Ethiopia, 2006-2015		
Period	RCA (RHS): Raw hides and skins	RCA (FLP): Finished leather products (leather, leather products and its fractions)
2006	30,6	0,32
2007	31,94	0,72
2008	31,21	0,69
2009	15,64	0,43
2010	14,4	0,37
2011	26,03	0,36
2012	17,03	0,59
2013	13,42	0,72
2014	8,92	0,6
2015	10,5	0,69

Table 5: RCA for Ethiopia, 2006 – 2015 (Author's own compilation, based on data from: www.trademap.org)

Despite growing interest from foreign investors, Ethiopia faces persistent structural barriers, including low labor productivity, weak technical skills, and inconsistent input quality (Xiaoyang 2019, 6–10). These constraints have limited the country's ability to build a globally competitive finished leather industry (United Nations Conference on Trade and Development 2018, 14).

These patterns are consistent with the core argument of NSE, which emphasizes that leveraging comparative advantage requires not just market forces but also active state coordination and strategic investment (Yifu Lin and Wang 2017, 3). This is especially important in the early stage of development, when overcoming coordination and information externalities (Lin 2012, 25) is critical to enabling structural upgrading. The RCA data shows that natural advantage alone is not enough for industrial advancement. Without strong policies to address production challenges and enhance firm capabilities, Ethiopia remains stuck at the lower end of the value chain. This

reinforces the critical role of governance and institutional capacity in achieving long-term industrial transformation.

One policy that illustrates both the potential and the challenges of this approach is Ethiopia's export tax on semi-processed leather. Intended to promote domestic value addition, the policy points out how weak implementation capacity and unaddressed structural bottlenecks can undermine even well-intentioned industrial strategies.

From protection to paralysis: Ethiopia's leather sector under export tax policy

While Ethiopia's strong comparative advantage in raw hides and skins provided a promising base for value-added growth, government trade policy failed to deliver sustained industrial transformation. A key example is the export tax policy introduced in the leather sector. In 2008, the government imposed a 150% export tax on wet blue leather (Oqubay 2015, 223), and extended the measure to crust leather in 2012. The policy, led by the Ministry of Finance and Economic Development, aimed to promote domestic value addition, reduce dependence on semi-processed exports, and encourage tanneries to upgrade their production processes to meet international standards (Wegayehu and Kalaba 2016, 4) (Yifu Lin and Wang 2017, 141–142). This strategy reflects the logic of the Flying Geese model, which views industrial development as a staged process where countries gradually shift from exporting raw materials to producing more complex, value-added goods (Yifu Lin and Wang 2017, 41–42). Ethiopia's leather policy can be understood as an attempt to follow this developmental path. Historically, countries that achieved structural transformation did so by actively managing their insertion into global markets and shielding nascent industries during their formative stages. This highlights the importance of protecting infant

industries to avoid premature deindustrialization. Early-stage industries require temporary protection to grow. Exposure to competition too soon leads to collapse. Protecting infant industries is part of building long-term competitiveness (Interviews with development experts 2025, Interview response 11). Such protection was a key feature in the development trajectories of East Asian economies, including China, where gradual liberalization was paired with strong state guidance and phased upgrading through domestic capability-building and export discipline.

At the same time, Ethiopia witnessed a sharp rise in foreign investment, particularly from China, during the 2008 global financial crisis. Driven by the "Go Global" strategy (Salidjanova 2011, 1), Chinese investment in Ethiopia increased by more than 110%, with several firms entering the leather sector to build factories and expand production capacity (Wolf and Cheng 2018, 8–11). This alignment of industrial policy and foreign capital seemed promising. However, several challenges quickly emerged.

Despite the export tax's intention to retain value and promote upgrading, the continued export of live animals led to shortages of hides and skins for domestic processing (United Nations Conference on Trade and Development 2018, 3). Meanwhile, broad discretionary power given to customs officials over product classification introduced opportunities for corruption and inconsistent enforcement (Brautigam, Weis, and Tang 2018, 166) illustrating how struggles over wealth, authority, and institutional rules remain a persistent feature of the country's governance landscape (Acemoglu and Robinson 2013, 431). High export taxes also reduced competitiveness for both local producers and international buyers (Abebe Tefera and Schaefer 2013). A predictable economic environment with stable inflation, interest rates, and exchange rates is necessary to attract investment and sustain industrial momentum. Without macroeconomic stability, even targeted

industrial policies struggle to generate the investor confidence needed for long-term transformation (Interviews with development experts 2025, Interview response 13).

Following the tax policy's implementation, Ethiopia's exports of finished leather products declined sharply in 2009 and 2010, and only began to partially recover in subsequent years, mostly through foreign-owned firms (*see Figure 1*). Local tanneries, by contrast, struggled to meet global standards (United Nations Conference on Trade and Development 2018, 7–10). Rising production costs driven by low productivity, poor-quality inputs, and reliance on imports further reduced competitiveness (Ministry of Industry 2016, 22). Many domestic factories lacked the technology, skills, and financial resources to scale up operations or modernize effectively (Ministry of Industry 2016, 27–28). Additionally, key policy decisions were made with limited input from local stakeholders, weakening domestic ownership and long-term effectiveness (Ministry of Industry 2016, 20). This approach ran counter to the core principle of development, which involves growing local industries by producing goods domestically to replace imports and meet local demands (Leys 2009, 109–110).

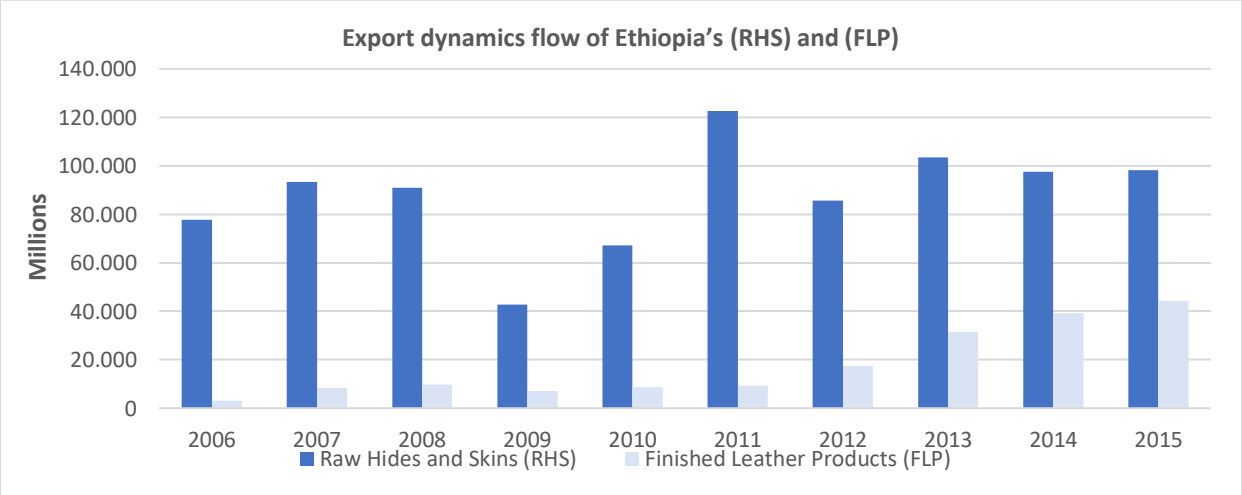

Figure 1: Export dynamics in Ethiopia, 1999 – 2010 (Author's own compilation, based on data from: United Nations Commodity Trade Statistics Database and Ethiopian Revenues and Customs Authority)

Leather sector's contribution to Ethiopia's manufacturing export earnings, 2006 - 2010 (in thousands of USD)			
Year	Product	Product content	Value (USD)
2006	**Raw Hides and Skins (RHS)**	**Raw Hides and skins (RHS)**	**77.693**
	Finished Leather Products (FLP)	Footwear	3.176
		Articles of leather	
	Total sector	**80.869**	
2007	**Raw Hides and Skins (RHS)**	**Raw Hides and skins (RHS)**	**93.394**
	Finished Leather Products (FLP)	Footwear	8.448
		Articles of leather	
	Total sector	**101.842**	
2008	**Raw Hides and Skins (RHS)**	**Raw Hides and skins (RHS)**	**90.960**
	Finished Leather Products (FLP)	Footwear	9.764
		Articles of leather	
	Total sector	**100.724**	
2009	**Raw Hides and Skins (RHS)**	**Raw Hides and skins (RHS)**	**42.769**
	Finished Leather Products (FLP)	Footwear	7.109
		Articles of leather	
	Total sector	**49.878**	
2010	**Raw Hides and Skins (RHS)**	**Raw Hides and skins (RHS)**	**67.199**
	Finished Leather Products (FLP)	Footwear	8.602
		Articles of leather	
	Total sector	**75.801**	

Table 6: Leather sector share in manufacturing exports for Ethiopia, 2006-2010 (Author's own compilation, based on data from: https://www.trademap.org/Index.aspx)

The leather sector's contribution to export earnings has steadily declined over time (*See Table 6*). Although the global demand for leather increased by 49% between 2007 and 2013, Ethiopia's leather exports rose by only 32%, from $101.8 million to $135.1 million (Wegayehu and Kalaba 2016, 18) *(See Table 6 and 7*). Most exports remained concentrated in raw hides and skins, with limited gains in finished leather goods. From 2011 to 2015, the leather sector's share of total manufacturing exports dropped from 31.5% to just 11% (*see Table 7*), signaling a declining role in national industrial performance.

Leather sector's contribution to Ethiopia's manufacturing export earnings, 2011 - 2015 (in thousands of USD)					
Year	Product	Product content	Value (USD)	Share of manufacturing export per product (%)	Total share of manufacturing export per product (%)
2011	Manufacturing export		**419.189**		
	Raw Hides and Skins (RHS)	**Raw Hides and skins (RHS)**	**122.713**	29,27	**29,27**
	Finished Leather Products (FLP)	Footwear	8.637	2,06	**2,22**
		Articles of leather	676	0,16	
	Total sector		**132.026**		**31,50**
2012	Manufacturing export		**457.819**		
	Raw Hides and Skins (RHS)	**Raw Hides and skins (RHS)**	**85.608**	18,70	**18,70**
	Finished Leather Products (FLP)	Footwear	14.400	3,15	**3,81**
		Articles of leather	3.010	0,66	
	Total sector		**103.018**		**22,50**
2013	Manufacturing export		**771.292**		
	Raw Hides and Skins (RHS)	**Raw Hides and skins (RHS)**	**103.422**	13,41	**13,41**
	Finished Leather Products (FLP)	Footwear	28.343	3,67	**4,10**
		Articles of leather	3.286	0,43	
	Total sector		**135.051**		**17,51**
2014	Manufacturing export		**1.669.495**		
	Raw Hides and Skins (RHS)	**Raw Hides and skins (RHS)**	**97.463**	5,84	**5,84**
	Finished Leather Products (FLP)	Footwear	33.885	2,03	**2,36**
		Articles of leather	5.440	0,33	
	Total sector		**136.788**		**8,19**
2015	Manufacturing export		**1.303.919**		
	Raw Hides and Skins (RHS)	**Raw Hides and skins (RHS)**	**98.098**	7,52	**7,52**
	Finished Leather Products (FLP)	Footwear	37.689	2,89	**3,40**
		Articles of leather	6.624	0,51	
	Total sector		**142.411**		**10,92**

Table 7: Leather sector share in manufacturing exports for Ethiopia, 2011-2015 (Author's own compilation, based on data from: https://www.trademap.org/Index.aspx)

The introduction of the export tax also shifted Ethiopia's trade patterns. While Italy and the United Kingdom were once key markets, exports moved increasingly toward China, Hong Kong, and India after 2008 (Wegayehu and Kalaba 2016, 7). Although this change reflected broader shifts in global

trade, it did not lead to long-term industrial upgrading. In 2016 and 2017, Ethiopia achieved a record $140 million in leather exports. However, these earnings fell drastically during the COVID-19 pandemic, reaching just $21.6 million by mid-2021, missing the national target of $90 million (Fekadu 2022).

Despite having one of Africa's largest livestock populations with over 165 million cattle and more than 40 million hides and skins produced annually, the sector continues to underperform (Tilahun 2024). In 2023, leather exports reached only $20.3 million, far below expectations (Trading Economics 2025). This persistent gap between resource potential and industrial outcomes highlights deeper issues: weak institutional capacity, fragmented coordination, and insufficient support for domestic firms.

Instead of introducing reforms in a phased and coordinated manner, Ethiopia implemented fast policy shifts without ensuring that the necessary skills, technology, and infrastructure were in place. As a result, the leather sector has struggled to transition from low-value exports to a globally competitive and sustainable industry. Additionally, this challenge was made worse by the reliance on imported technologies, which often require foreign inputs, weakening connections to local suppliers and contributing to foreign exchange pressures rather than supporting domestic growth (Leys 2009, 122).

Ethiopia's experience with the leather sector highlights a broader challenge in its development path: the gap between economic potential and structural transformation. While strategic policies and resource advantages are necessary, they are not sufficient. In the absence of capable institutions and long-term domestic capacity-building, industrial policy risks falling short.

The next section explores whether external engagement, particularly through Chinese investment in industrial parks and manufacturing, has helped address these constraints or reinforced existing patterns

China's role in Africa's industrialization

Foreign investment in Sub-Saharan Africa has often struggled to support sustained industrial development, largely due to weak linkages with domestic industries. Between 2008 and 2014, FDI accounted for 16.1% of total investment in the region, above the global average of 9.2% and higher than the 10% seen in other developing countries, while local investment remained limited (Wolf and Cheng 2018, 7–8). Despite these high inflows, the lack of integration with local economies meant that industrial spillovers and capacity building were often minimal (Xiaoyang 2019, 22–23).

During the early 2010s, Chinese state-guided investment emerged as a major force in Africa's manufacturing sector, signaling a shift beyond extractive industries toward industrial engagement. By late 2012, Chinese investment in African manufacturing (Wolf and Cheng 2018, 9), had reached 3.43 billion US dollars, with over one-third of this invested between 2009 and 2012 (Brautigam, Xiaoyang, and Xia 2018, 30). By 2015, manufacturing had become the third-largest sector for Chinese FDI in Africa, accounting for 13.3% of total Chinese investment stock on the continent, or 4.63 billion US dollars (Brautigam, Xiaoyang, and Xia 2018, 30). This trend continued, with total Chinese FDI flows to Africa reaching 3.96 billion USD in 2023, and cumulative greenfield investments from 2000 to 2022 surpassing 112 billion USD, a significant share of which targeted manufacturing (Moses 2024). In 2024, China promised an additional 50 billion USD to support industrialization and job creation, reinforcing its long-term commitment to Africa's manufacturing sector (Ankrah 2024).

This expansion was rooted in China's state-led development model, which strategically used state-owned enterprises (SOEs) to drive industrialization and support private sector growth. In China, SOEs were instrumental in executing large infrastructure projects that created the conditions for private enterprises (Wolf and Cheng 2018, 10). Between 2002 and 2006, SOE profits grew by 223%, and their tax contributions increased by 105% (Wolf and Cheng 2018, 30–31), enabling the private sector's share of the economy to grow from 19% in 2006 to 46.4% by 2014 (Wolf and Cheng 2018, 11). This trajectory illustrates the importance of state–private sector coordination. The private sector is the engine of growth, but industrialization requires the state to create the investment environment and guide early development. Success depends on a functional balance between state leadership and private sector execution (Interviews with development experts 2025, Interview response 5). Ethiopia tried to adapt aspects of this model by developing industrial parks and targeting sectors like leather, where it held a comparative advantage.

The Eastern Industrial Zone (EIZ), one of Ethiopia's flagship industrial projects, attracted a significant number of Chinese manufacturers. However, most of these firms operated in isolation from local supply chains and labor markets, limiting opportunities for technology transfer, skills development, and local enterprise integration (Brautigam, Xiaoyang, and Xia 2018, 40–46). While the physical infrastructure mirrored elements of China's model, the weak institutional linkages and lack of embeddedness in the domestic economy raised questions about the depth and sustainability of industrial learning and transformation.

From cotton to leather: China's manufacturing shift to Ethiopia

China's engagement with Ethiopia has evolved over time, shaped by shifting political alliances and economic pragmatism. During the 1970s and 1980s, Ethiopia's alignment with the Soviet Union

disrupted potential cooperation with China, resulting in the suspension of planned projects (Brautigam, Xiaoyang, and Xia 2018, 37). China began re-engaging with Ethiopia in the late 1990s, starting with the revival of the Awassa cotton mill, which it took over in 1999 and restarted by 2001 (Brautigam, Xiaoyang, and Xia 2018, 37). Around the same period, Chinese firms also began purchasing Ethiopian sheepskins and goatskins, although this trade offered limited benefits to local industries (Brautigam, Xiaoyang, and Xia 2018, 41–43).

A turning point came after 2004, when Chinese investment in Ethiopia's manufacturing sector began to accelerate. Earlier political instability and weak investment conditions had limited engagement (Brautigam, Xiaoyang, and Xia 2018, 40), but by 2010, annual Chinese investment had grown to 58.5 million USD (World Bank 2012, 5). Meanwhile, China became a major export market for Ethiopian leather, with its share rising from 2% in 2000 to 31% in 2010, and reaching nearly 58% by 2013 (Yifu Lin and Wang 2017, 141).

The establishment of Ethiopia's first industrial zone, the Eastern Industrial Zone (EIZ), marked a key turning point in China's growing presence in the country, driven by rising production costs in China and Ethiopia's targeted efforts to attract investment. With strong government support for exports and specific incentives for foreign investors, including tax breaks and land lease discounts, Ethiopia attracted increasing interest from Asian investors, particularly China (Brautigam, Xiaoyang, and Xia 2018, 41). As production costs in China rose after 2005, both Chinese and international firms began looking to lower-cost locations like Ethiopia (Brautigam, Xiaoyang, and Xia 2018, 30–36). Between 2005 and 2009, China expanded its involvement in Ethiopia's economy by investing in infrastructure, energy, and industrial sectors (Geda and G.Meskel 2009). Following the launch of the EIZ by the Qiyuan Group (Brautigam, Xiaoyang, and Xia 2018, 46) several Chinese tanneries invested in Ethiopia between 2010 and 2014 to secure raw materials after the

introduction of export taxes. By 2012, Chinese firms had begun establishing shoe factories, reflecting a broader shift in labor-intensive production to Etiopia (Brautigam, Xiaoyang, and Xia 2018, 41–43).

SEZs as engines of export-led growth in Ethiopia

Special Economic Zones (SEZs) became a central part of Ethiopia's industrial strategy, inspired by China's success with export-led, zone-based development. China's Shenzhen SEZ, launched in 1980, served as a model, demonstrating how reforms that were too risky to apply nationwide could be tested. By 2008, Shenzhen's GDP had grown from 40 million to over 114 billion US dollars, with industrial output reaching 521 billion (Yifu Lin and Wang 2017, 135–137) (Zeng 2010, 58–59). Drawing from this experience, China supported the development of Ethiopia's first SEZ, the Eastern Industrial Zone (EIZ) in Dukem, established in 2007 by Jiangsu Yongyuan Group with support from the China-Africa Development Fund. By 2013, 11 Chinese firms had invested 91 million dollars in industries such as garments, leather, and auto assembly (Yifu Lin and Wang 2017, 139–140). Ethiopia offered generous incentives, including tax exemptions of up to 15 years, subsidized land, and customs duty relief, to attract and retain these investors (Business Outlook East Africa 2025).

By 2015, the EIZ hosted 22 firms, primarily in the services sector (Brautigam, Xiaoyang, and Xia 2018, 40). Many Chinese firms preferred operating in such zones, especially those managed by other Chinese companies, as they offered greater stability compared to the weak infrastructure and regulatory challenges found elsewhere in Africa (Brautigam, Xiaoyang, and Xia 2018, 46). Although Africa received only a small share of China's global FDI, just 3% of the US$123.12 billion in 2014, private Chinese firms played a growing role in Ethiopia's industrialization

(Mofcom 2015, 90) (Yifu Lin and Wang 2017, 139). Between 2005 and 2013, the number of Chinese FDI projects in Africa grew from 52 to 1,217 (Shen 2013), with private firms accounting for 45% of investment (Yifu Lin and Wang 2017, 139).

In Ethiopia, private Chinese investors contributed to the growth of major industrial parks such as Bole Lemi, home to companies like George Shoes, and Hawassa Industrial Park (Brautigam, Xiaoyang, and Xia 2018, 43–44), which received $250 million from the World Bank in 2013 (The South African Institute of International Affairs (SAIIA) 2016). These zones helped boost exports and were presented as models for replication across Africa.

Flying Geese in flight? Chinese investment and Ethiopia's industrial zones

Ethiopia positioned foreign, particularly Chinese, investment as a core driver of its export-led industrial strategy, using sectors like leather to align investor demand with national development goals. Between 2010 and 2015, five Chinese companies opened tanneries, and several others established shoe factories, contributing to the growth of domestic manufacturing. Most processed leather was exported to China, meeting investor demand for raw materials while generating foreign exchange for Ethiopia (Yifu Lin and Wang 2017, 141).

The Eastern Industrial Zone (EIZ) emerged as a key project in this strategy. The entry of the Huajian Group, a major Chinese shoemaker, symbolized Ethiopia's effort to attract large-scale Chinese manufacturers to boost exports, create jobs, and facilitate skills transfer. Located near Addis Ababa, the EIZ became a main element of Ethiopia's national industrial development plan (FDRE Ministry of Industry 2013, 20). Huajian opened its factory in Dukem in early 2012 after its CEO met Prime Minister Meles Zenawi at a business forum. Starting with 600 workers and monthly exports of

20,000 shoes (United Nations Conference on Trade and Development 2018, 10), the factory turned a profit within a year and reached over 10% profitability in 2013. The company invested $30 million and employed 3,400 workers, 96.5% of them Ethiopian earning significantly less than their Chinese counterparts. To address local skill shortages, Huajian sent multiple groups of Ethiopian workers to China for training between 2011 and 2015 (Lin and Wang 2014).

Huajian's success reflected a mix of low production costs, supportive policies, and strategic integration into global supply chains. Operating under an Original Equipment Manufacturer (OEM) model, the company benefited from trade preferences like AGOA and the EU's Everything But Arms initiative (Brautigam, Xiaoyang, and Xia 2018, 43). These factors aligned with China's broader "Go Global" strategy and zone-based development model (Wolf and Cheng 2018, 8–11). The EIZ, following a private-sector-driven approach, linking infrastructure development directly to industrial investment (Yifu Lin and Wang 2017, 135–37).

Ethiopia's engagement with firms like Huajian reflected an attempt to follow the Flying Geese model, positioning itself as a destination for labor-intensive manufacturing displaced by rising wages in China. While Huajian's operations created thousands of jobs and demonstrated the potential of late-industrialization, the company remained heavily dependent on Chinese inputs and management. Weak local supply chains and limited knowledge transfer revealed Ethiopia's persistent structural challenges (Yifu Lin and Wang 2017, 144–145).

Rather than producing high-value finished goods locally, Chinese firms in Ethiopia's leather sector largely exported semi-processed leather back to China due to limitations in product quality, processing speed, and industrial capacity. Local factories faced shortages of skilled labor and chemicals, outdated machinery, and difficulties meeting international standards (Pigato and Tang 2015). Most operated in isolation (Leys 2009, 109) rather than within coordinated value chains,

weakening competitiveness and efficiency (United Nations Conference on Trade and Development 2018, 7).

Many Chinese investors avoided collaboration with Ethiopian suppliers, relying instead on their own networks to ensure consistent quality and control. Language barriers, differing business practices, and inconsistent standards discouraged local partnerships (Gu 2011). This limited integration was further weakened by language barriers, reducing opportunities for coordination, knowledge transfer, and industrial learning as key ingredients for building domestic capabilities and long-term transformation (Interviews with development experts 2025, Interview response 14).

These outcomes highlight the need for strategic investment approaches. FDI can support industrialization when it protects national ownership. Some Asian countries ensured majority local control, allowing learning and capacity building before moving up the value chain. FDI with local ownership (e.g., 70/30 or 80/20 models) created space for domestic actors to participate in management, absorb knowledge, and eventually lead production upgrades (Interviews with development experts 2025, Interview response 7). In Ethiopia, however, weak local integration often meant that firms remained disconnected from domestic suppliers. Some Chinese firms even choose to incur financial penalties rather than source from local producers when product quality failed to meet global expectations (Yifu Lin and Wang 2017, 146). As a result, high-end leather goods continued to be produced in China, while Ethiopian firms remained limited to lower-value segments (Yifu Lin and Wang 2017, 143).

Huajian's investment illustrates China's bottom-up approach to overseas expansion, led not by central planners in Beijing, but by provincial governments and private firms (Hameiri and Jones 2018, 584). In this case, the Guangdong provincial government played a key role in facilitating the company's move to Ethiopia, offering political and logistical support (Brautigam, Weis, and Tang

2018) (Elsje 2015). This underlines how Chinese economic engagement abroad is shaped not only by business logic but also by subnational political dynamics (Bräutigam 2008, 54).

Chinese investment, especially through initiatives like the EIZ and companies like Huajian, helped advance Ethiopia's industrial goals by providing capital, creating jobs, and supporting export growth. China's zone-based development model offered a practical framework for industrial capacity building in a low-cost environment. Still, early progress revealed the need for stronger local linkages, deeper skills development, and greater institutional support to sustain long-term transformation. The next section explores how Ethiopia's internal constraints and implementation challenges limited its ability to fully benefit from these early opportunities.

When growth isn't enough: Ethiopia's struggle for industrial takeoff

Despite rapid economic growth between 2004 and 2015, Ethiopia struggled to achieve meaningful industrial transformation. In 2008 alone, GDP increased by 37% (World Bank 2012, 5), and GDP per capita rose steadily throughout the period (*see Figure 2 and Table 8*). Poverty also declined, with the national rate falling from 45.5% in 1995/96 to 23.5% in 2015 (UNDP 2018, 21). However, by 2015, agriculture and services still accounted for 37% and 47% of GDP, respectively, indicating a continued reliance on low-productivity sectors. The gap between growth and structural change underscores the need for sustained top-level commitment. Without strong state ownership and leadership from the top, industrialization stalls. A clear direction and consistent commitment over at least a decade is essential for building production capacity and sustaining growth (Interviews with development experts 2025, Interview response 1).

The Plan for Accelerated and Sustained Development to End Poverty (PASDEP, 2006–2010) targeted 7–10% annual growth, while the First Growth and Transformation Plan (GTP I, 2010/11–

2014/15) aimed to double the size of the economy within five years (Elsje 2015, 307). Inspired by China's model, Ethiopian leaders invested heavily in infrastructure, doubling the national road network and launching hydroelectrical projects, as powerful symbols of modernity (Elsje 2015, 306). Officials frequently invoking the phrase, "Without infrastructure, you can do nothing." This mirrored China's initial approach, which prioritized roads, power, and logistics as prerequisites for industrial growth. Infrastructure here includes both physical systems and institutional support needed for coordination and long-term planning (Interviews with development experts 2025, Interview response 4).

However, unlike China, Ethiopia lacked the coordinated industrial policy, workforce development, and targeted manufacturing support to turn infrastructure into industrial transformation (Elsje 2015, 306). Manufacturing growth remained weak, major projects faced delay, and FDI stayed limited (UNDP 2018, 7–8). Infrastructure, became an isolated achievement rather than a catalyst for structural economic change. This highlights the importance of a step-by-step policy approach. China's success stemmed from gradual, coordinated policy, while fragmented or reactive approaches often fail. Industrial development needs consistency and long-term planning (Interviews with development experts 2025, Interview response 6).

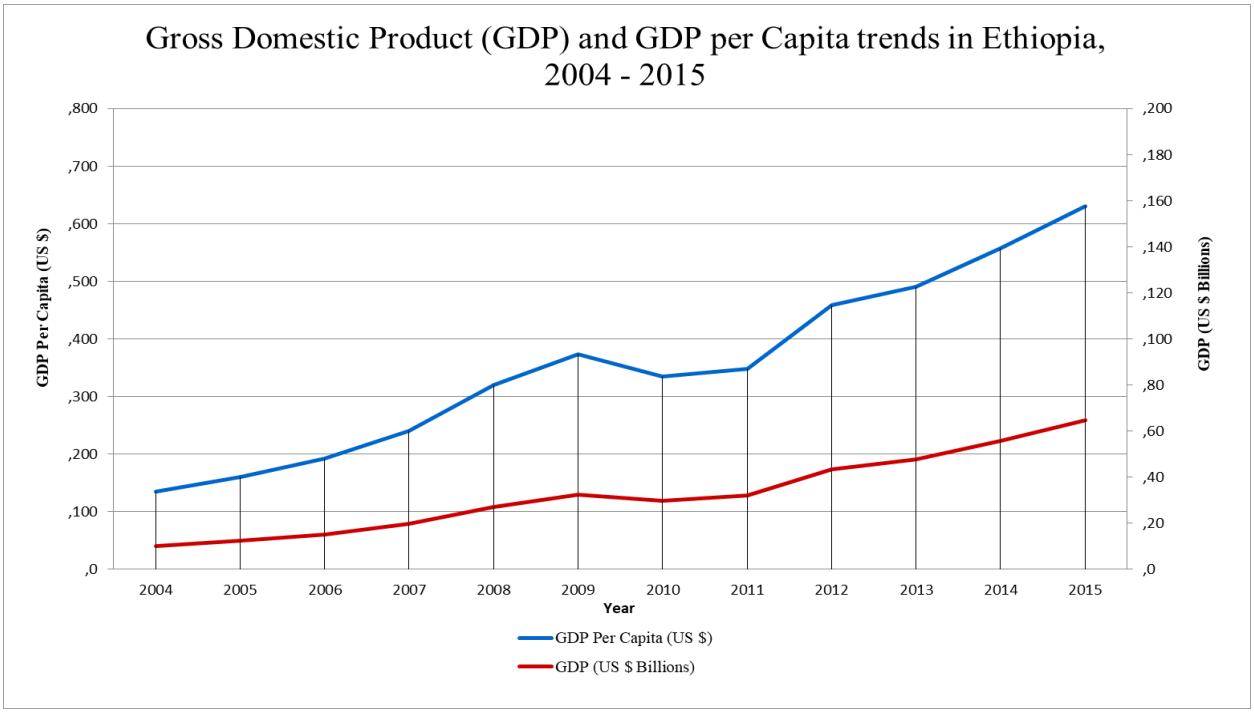

Figure 2: GDP per Capita[3] and GDP[4] in Ethiopia, 2004 – 2015. (Author's own compilation)

YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Ethiopia GDP Per Capita 2004-2015 (US $)	134,54	160,08	191,75	240,35	320,86	373,89	335,44	348	458,55	490,79	557,53	630,31
Ethiopia GDP 2004-2015 (US $)	10,13	12,4	15,28	19,71	27,07	32,44	29,93	31,95	43,31	47,65	55,61	64,59

Table 8: GDP and GDP per Capita in Ethiopia, 2004 – 2015 (Author's own compilation. Based on the same data as Table 8)

The Ethiopian leather industry demonstrates how weak implementation can undermine well-intentioned industrial policy. The government introduced a range of export incentives including tax-free equipment imports, duty exemptions, faster licensing, credit guarantees, and export loans. However, these measures were poorly executed and had limited impact (UNIDO 2012, 89). Parallel efforts to strengthen marketing and develop tanning and finishing segments also failed to deliver

[3] https://www.macrotrends.net/global-metrics/countries/eth/ethiopia/gdp-gross-domestic-product
[4] https://www.macrotrends.net/global-metrics/countries/eth/ethiopia/gdp-per-capita

results, due to fragmented coordination and institutional weaknesses (United Nations Conference on Trade and Development 2018, 8) (UNIDO 2012, 68).

Persistent shortages in raw materials and outdated technologies further eroded productivity and quality. Poor animal care, traditional slaughtering methods, and inconsistent supply chains from meat producers led to substandard hides and skins (UNIDO 2012, 23) (Amde 2017, 118). Technological backwardness kept both productivity and product quality low (UNIDO 2012, 23), while the limited supply of finished leather raised input costs and constrained value addition. These barriers made it difficult for the sector to move up the value chain. Moving from basic processing to high-value manufacturing is critical. Industrial success relies on adopting technologies that enable competitive, value-added production (Interviews with development experts 2025, Interview response 10).

These structural limitations also affected downstream sectors. The leather garment and footwear industries faced high input costs and underutilized capacity, weakening their competitiveness and limiting their ability to meet export targets (United Nations Conference on Trade and Development 2018, 10). In response to raw material shortages, some firms shifted to producing synthetic shoes. However, Ethiopian brands remained largely unknown internationally due to limited marketing support and financial constraints (United Nations Conference on Trade and Development 2018, 11). Meanwhile, international demand for leather declined as synthetic substitutes gained market share.

Government policies promoting value addition disrupted supply chain relations. By increasing the power of tanneries over raw material suppliers, policies created price instability and supply disruptions, weakening relationships within the industry (United Nations Conference on Trade and

Development 2018, 11). Buyers of finished leather demanded lower prices and greater variety, but coordination failures resulted in delayed payments and deliveries (UNIDO 2012, 87).

Skills shortages and weak management capabilities held back industrial upgrading. The sector lacked workers trained in critical areas such as cutting, design, and finishing, which hurt the quality of final products and reduced export potential (UNIDO 2012, 23). These gaps reveal that low labor costs are not enough. Industrialization depends on workers being productive, trainable, and able to adapt to new processes and technologies (Interviews with development experts 2025, Interview response 12). The challenge is not simply one of wages, but of building a workforce that can support complex production. Industrial growth depends on skilled manpower. Ethiopia's efforts face limitations due to weaknesses in education and vocational training. Without the necessary human capital, progress beyond low-value sectors is not possible (Interviews with development experts 2025, Interview response 3).

In addition to labor issues, weak supervision and inefficient management further lowered productivity. Although Chinese experts provided technical assistance to both domestic and foreign-owned firms, underlying structural issues persisted (Brautigam, Xiaoyang, and Xia 2018, 40). A deeper challenge lies in the need for strong production capabilities supported by long-term government commitment. Sustaining innovation depends on developing infrastructure, improving skills, and building a solid industrial base. In cases where industries are considered essential, temporary protection may be necessary, as Ha-Joon Chang argues, to allow domestic capacity to grow before entering global competition. Meeting these requirements calls for clear policies, strategic planning, and strong leadership. Without such a foundation, foreign investment and training may generate short-term growth, but not lasting innovation or structural transformation (Interviews with development experts 2025, Interview response 8).

Labour market challenges also discouraged retention of skilled workers. Low wages led many to migrate to better paying sectors like construction (UNIDO 2012, 11). Employers, meanwhile, criticized labour laws as overly protective, while workers expressed dissatisfaction with wages, poor working conditions, and lack of benefits (UNIDO 2012, 86–90). These frictions hindered productivity and contributed to high turnover.

Infrastructure deficiencies, financial constraints, and foreign competition compounded the industry problems. Firms faced frequent power outages, water shortages, inadequate transportation, and slow customs clearance (Yifu Lin and Wang 2017, 148), all of which disrupted production and delayed exports. Access to finance was also limited due to high interest rates, collateral requirements, and hidden costs. Even with a growing domestic shoe market, Ethiopian producers struggled to compete with cheap imports from China (United Nations Conference on Trade and Development 2018, 16–18).

Overall, the experience of Ethiopia's leather industry illustrates the broader risks facing African industrialization in the context of globalization. While Chinese involvement provided investment and expertise, it could not overcome Ethiopia's deep-rooted institutional and structural weaknesses. Without stronger domestic coordination, strategic capacity building, and policy coherence, foreign partnerships risk reinforcing dependency and even accelerating deindustrialization (Bräutigam 2008, 52).

The expert interviews have already enriched the earlier analysis by adding real-world perspectives to the findings from documents and data. They deepened the understanding of Ethiopia's industrial transformation by revealing how institutional and policy issues unfolded in practice. The next section presents the key takeaways from these interviews, organized by thematic priority.

Unpacking industrial transformation: views from development experts

The expert interviews conducted for this research involved individuals with extensive experience in industrial development and structural transformation, including professionals from the United Nations Industrial Development Organization (UNIDO). They provided insights into the challenges and opportunities related to industrial policy, foreign investment, and capacity building. The views expressed reflect their personal and professional perspectives and do not represent the official position of UNIDO or any other organization.

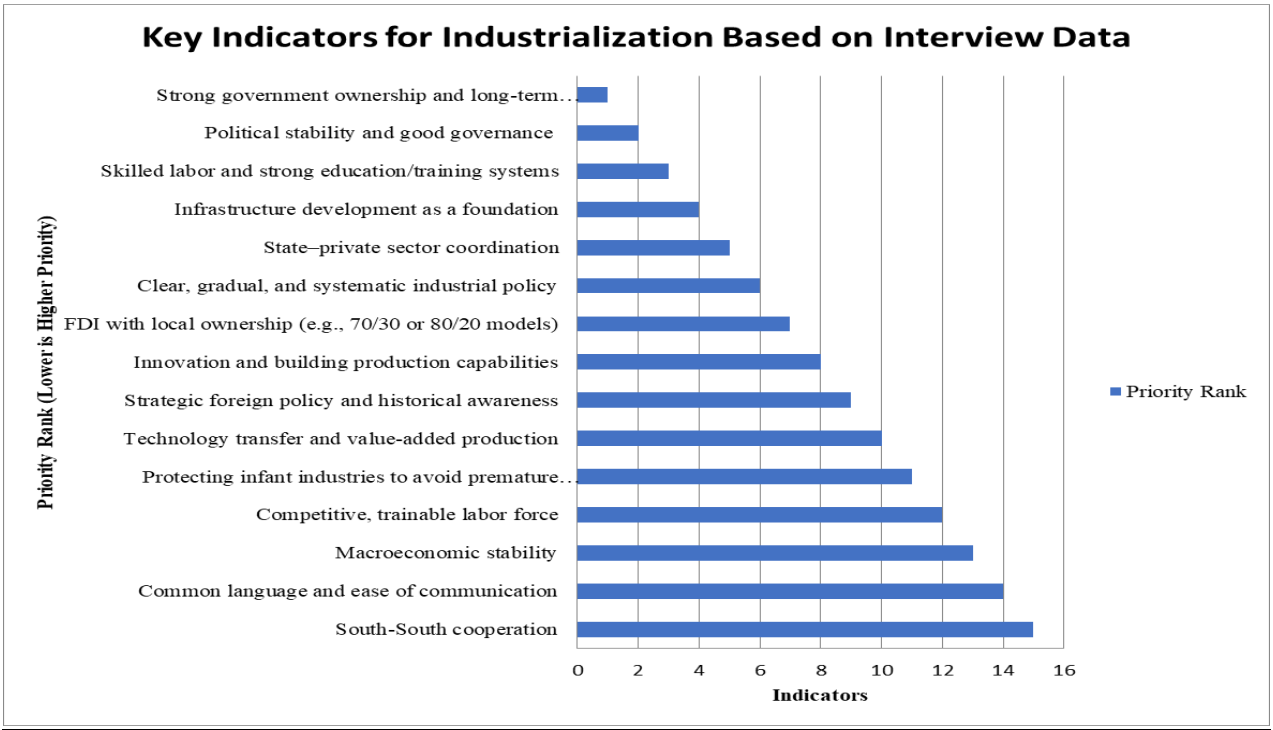

Figure 3: Key Indicators for Industrialization (Author's own compilation derived from interview findings)

Drawing on their policy expertise and understanding of Ethiopia's development path, the interviewees emphasized that politics is central to every stage of the industrialization process. Based on their insights, the key indicators for industrialization were ranked by priority, highlighting

the most critical conditions for Ethiopia's industrial transformation (*see Figure 3*). Political factors dominate the top of the ranking, with strong government ownership, political stability, and effective governance identified as foundational. These are followed by technical and institutional elements such as skills development, infrastructure, and industrial policy. Other important factors include protecting infant industries, promoting innovation, and aligning foreign policy with development goals, as revealed in more detailed findings from the interviews (*see Table 9*). In some instances, development strategies have been borrowed from other contexts without meaningful adaptation to Ethiopia's realities. This points to a deeper political challenge. Without firm leadership, strategic vision, and institutional ownership, efforts to build human capital, develop skills, and drive industrial transformation and development lack the depth and coordination needed for lasting impact.

Key Indicators for Industrialization		
Summary of interview responses (1-15)		
1	**Strong government ownership and long-term commitment**	Without strong state ownership and leadership from the top, industrialization stalls. A clear direction and commitment over 10–15 years is essential for building production capacity and sustaining growth.
2	**Political stability and good governance**	Political conditions are fundamental. Growth slows when political instability rises. Stability, low corruption, and effective governance form the foundation for industrial policy, investment, and implementation. Industrialization operates within a deeply political framework.
3	**Skilled labor and strong education/training systems**	Industrial growth depends on skilled manpower. Ethiopia's efforts face limitations due to weaknesses in education and vocational training. Without the necessary human capital, progress beyond low-value sectors is not possible.
4	**Infrastructure development as a foundation**	China began by building infrastructure such as roads, power, and logistics to create the base for industrial growth. Infrastructure includes both physical systems and institutional support that enable coordination and long-term planning.
5	**State–private sector coordination**	The private sector is the engine of growth, but industrialization requires the state to create the investment environment and guide early development. Success depends on a functional balance between state leadership and private sector execution.
6	**Clear, gradual, and systematic industrial policy**	A step-by-step policy approach is key. China's gradual and organized strategy contrasts with fragmented or reactive policymaking. Industrial development needs consistency and long-term planning.
7	**FDI with local ownership (e.g., 70/30 or 80/20 models)**	Foreign direct investment can support industrialization when it protects national ownership. Some Asian countries ensured majority local control, allowing learning and capacity building before moving up the value chain.
8	**Innovation and building production capabilities**	Sustaining innovation requires strong production capabilities supported by long-term government commitment. This involves developing infrastructure, improving skills, and building a solid industrial base. If certain industries are essential, they may need temporary protection as argued by Ha-Joon Chang to allow domestic capacity to grow before entering global competition. Achieving these demands clear policies, strategic planning, and strong leadership. Without this foundation, foreign investment and training may lead to growth, but not to lasting innovation or structural transformation.
9	**Strategic foreign policy and historical awareness**	Foreign policy is rooted in political history. China's industrial engagement with Africa reflects a long-standing historical relationship. These ties influence cooperation, trust, and long-term industrial collaboration.
10	**Technology transfer and value-added production**	Moving from basic processing to high-value manufacturing is critical. Industrial success relies on adopting technologies that enable competitive, value-added production.
11	**Protecting infant industries to avoid premature deindustrialization**	Early-stage industries require temporary protection to grow. Exposure to competition too soon leads to collapse. Protecting infant industries is part of building long-term competitiveness.
12	**Competitive, trainable labor force**	Low labor costs are not enough. Industrialization depends on workers being productive, trainable, and able to adapt to new processes and technologies.
13	**Macroeconomic stability**	A predictable economic environment with stable inflation, interest rates, and exchange rates is necessary to attract investment and sustain industrial momentum.
14	**Common language and ease of communication**	A shared national language, as seen in China, supports coordination, mobility, and business efficiency. Language unity was viewed as a key enabler of national development planning.
15	**South-South cooperation**	South-South cooperation is based on shared political interests and historical relationships. China shares its development experience with African countries through these connections by offering guidance on industrial policies, development strategies, and building long-term partnerships rooted in mutual understanding.

Table 9: Key Indicators for Industrialization (Author's own compilation derived from interview findings)

Synthesis of key arguments

This thesis argues that sustainable industrial transformation in Ethiopia has been hindered less by the absence of sound policy and more by political and institutional limitations. While Ethiopia adopted several strategies aligned with NSE, including support for sectors with latent comparative advantage and the creation of SEZs, implementation outcomes were mixed due to persistent governance deficits, elite capture, and weak institutional coordination.

Ethiopia's natural advantage in raw hides and skins, for example, failed to translate into competitive exports of finished leather goods. Despite high Revealed Comparative Advantage (RCA) scores for raw materials, processed products remained uncompetitive due to technological gaps, skill shortages, and limited value-chain integration. This outcome confirm NSE's argument that comparative advantage must be actively supported through coordinated investment, institutional learning, and policy coherence, rather than being treated as self-activating.

Although Ethiopia developed a formal architecture of industrial institutions, such as LIDI, EIC, and the Ministry of Industry, these institutions were frequently under-resourced and poorly coordinated. Governance indicators from the World Bank show consistent deterioration in key areas including government effectiveness, regulatory quality, and political stability between 2008 and 2023. This long-term decline in institutional capacity weakened the ability to implement policy, attract investment, and support industrial learning.

The dominance of elite political control, rooted in Ethiopia's history of extractive institutions, distorted the design and outcomes of industrial policy. Measures like export taxes on semi-processed leather, although well-intentioned, failed due to weak enforcement, corruption, and

limited stakeholder consultation. These patterns highlight that political settlements and power configurations are not peripheral, they are foundational to industrial success.

Foreign direct investment (FDI), including substantial Chinese engagement through the Eastern Industrial Zone (EIZ) and firms like Huajian, offered capital, jobs, and export growth. However, these investments remained weakly embedded in local supply chains and largely disconnected from domestic enterprise development. While aligned with the Flying Geese model in form, their function in Ethiopia reinforced external dependency more than structural transformation. Without strong national policies and solid institutions, foreign investment can lead to isolated factories that don't help build a lasting and connected manufacturing sector.

Significant infrastructure investments in roads, energy, and logistics, while impressive, did not automatically produce industrial upgrading. Unlike China's coordinated sequencing of infrastructure and industrial policy, Ethiopia's approach lacked sectoral targeting, institutional learning, and strategic alignment. Infrastructure alone, without industrial policy embedded in a broader development strategy, remains insufficient to drive transformation.

Expert interviews conducted for this thesis emphasized that industrialization is deeply political. Political stability, leadership commitment, and long-term institutional ownership were identified as prerequisites for effective industrial development. Without these foundations, industrial policy risks becoming reactive and fragmented, incapable of supporting sustained structural change.

The thesis also finds that China's development path offers useful lessons, but these must be adapted, not copied. NSE and the Flying Geese model provide valuable frameworks, but their success depends on how well they are tailored to local political economies. Ethiopia's distinct institutional

legacy and governance structure demand context-specific strategies that prioritize institutional strengthening and policy coherence.

A key insight from historical trajectories is that no advanced economy has achieved sustained prosperity without building a robust and durable industrial base. This process typically takes 30 to 40 years. The United States, Germany, Japan, and China all invested heavily in manufacturing before transitioning to service-based economies. Attempting to leapfrog directly into a service economy, without allowing the industrial sector to mature, represents a developmental trap for latecomer economies. Without industrial depth, services remain low productivity and informally structured, unable to generate transformative growth. Ethiopia's experience demonstrates that industrialization must be sustained long enough to consolidate capabilities, build linkages, and generate productivity growth before any service-led development path becomes viable.

In addition, the thesis highlights a growing tendency among developing countries to place disproportionate hope in innovation and digital solutions, even while structural bottlenecks remain unresolved. Innovation, however, is not a shortcut. It is the culmination of long-term industrial accumulation, institutional learning, and coordinated state support. Innovation without industrial depth risks becoming superficial and externally dependent, reinforcing rather than overcoming underdevelopment. It is a state of art that emerges only after decades of industrial investment and institutional maturation. At its core, innovation is not merely technical, but it is political.

Overall, Ethiopia's incomplete industrial transformation reflects a developmental disconnect because ambitious strategies were undermined by weak implementation capacity, extractive politics, and limited institutional coordination. The central message of this research is that industrial transformation requires more than sound ideas. It demands effective governance, strategic adaptation, and long-term political commitment, as well as the patience and resolve to

build an industrial base that endures. Innovation and services can only become effective engines of sustainable development once a strong industrial foundation has been firmly established.

CONCLUSION

Ethiopia's experience with industrial transformation highlights the importance of aligning strategy with domestic institutional capacity and sustained political commitment. While frameworks such as New Structural Economics (NSE) and the Flying Geese model offer valuable guidance, their success depends on how well they are adapted to a country's specific political and institutional realities. Ethiopia's comparative advantage in raw materials and its cooperation with China generated early momentum, but weak institutional linkages, fragmented policy coordination, and insufficient domestic capability-building limited the long-term impact.

These challenges are not unique to Ethiopia. They raise broader questions about how developing countries, whether in Sub-Saharan Africa or the Western Balkans, can design industrial strategies that are both economically sound and institutionally feasible. NSE and similar models often assume a degree of state effectiveness that is lacking in many settings where institutions are still evolving and political transitions frequently disrupt policy continuity. Understanding how to tailor such models to these realities is a crucial area for future research.

The Western Balkans, despite their proximity to the European Union, continue to face structural obstacles such as deindustrialization, high youth unemployment, and ongoing emigration. In the absence of strong local industries and stable opportunities, people themselves have become "flying geese", migrating abroad in search of a better future. This is not merely an economic issue, it reflects deeper institutional and political weaknesses. The core challenge is how to create conditions that retain human capital and foster inclusive industrial growth. As in Ethiopia, effective leadership, institutional coordination, and coherent long-term planning are essential to reversing these trends.

At the same time, the global environment is changing. With rising trade barriers, China's large and persistent trade surplus, and many rich countries focusing more on protecting their own industries, it is becoming less clear whether the Flying Geese model still applies. The openness that once enabled export-led catch-up is narrowing. In this new context, building endogenous capabilities, improving governance, and managing foreign investment strategically are more important than ever.

External partnerships remain important, but what matters is how they are governed. Countries must retain strategic ownership over their development paths while leveraging global capital, knowledge, and markets to support long-term transformation. In both Ethiopia and the Western Balkans, this means cultivating strong institutions, managing foreign engagement wisely, and investing in human capital.

In sum, sustainable industrialization demands more than growth strategies or external investment. It requires patient institution-building, visionary leadership, and policy consistency beyond electoral cycles. Whether in Africa or Southeast Europe, development cannot be reduced to passive catching-up. It is about actively shaping one's trajectory from within. Future research must focus not only on what models to adopt, but how to embed them in political and institutional contexts capable of driving real structural change in a rapidly evolving global economy. Above all, innovation must be understood not only as a technological process, but as a product of coordinated policy, institutional learning, and long-term investment in people.

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