

INTERDISCIPLINARY RESEARCH PAPERS

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AMBIGUITIES AND INCONSISTENCIES IN THE 'PRESCRIPTIONS' TOWARD 'DEVELOPMENT'

Elias N. Stebek *

Abstract

Ethiopia's Investment Proclamation states that *accelerated economic development* and *improved living standards* of the Ethiopian people are the objectives of investment promotion. Moreover, the 1995 Ethiopian Constitution guarantees "the right to *improved living standards* and to *sustainable development*." This paper deals with the ambiguities and inconsistencies in the path towards achieving one of the expectations enshrined in these laws, i.e., the aspiration to bring about *development*. It discusses the various notions of *development* that have influenced Ethiopia's policies and further examines the challenges thereof in clarity, consistency and effectiveness.

Key words:

Development, investment promotion, development theories, institutional capabilities, Ethiopia

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Introduction

The Preamble of Ethiopia's Investment Proclamation (Proclamation No. 769/2012) states the need to encourage and promote investment "so as to strengthen the domestic production capacity and thereby *accelerate the economic development* of the country and to *improve the living standards of its peoples*." Article 5 of the Proclamation further states that "the objectives of the investment policy of Ethiopia are designed to *improve the living standards* of the peoples of Ethiopia through the realization of *sustainable economic and social development*". Sub-Articles 1 to 8 of this provision state the specific

* Dean School of Graduate Studies, St. Mary's University College; This paper includes some of the themes in the first chapter of the author's unpublished PhD thesis (University of Warwick Law School, June 2012, Final version 9 December 2012). The paper is simultaneously submitted to the Proceedings of SMUC's Fourth Multi-Disciplinary Seminar and to the Inter-disciplinary Research Papers column of *Mizan Law Review*.

objectives of Ethiopia's investment policy which, *inter alia*, include, accelerated economic development, foreign exchange earnings through export expansion in volume and variety, saving 'foreign exchange through production of import substituting products,' encouraging 'balanced development and integrated economic activity among the Regions and strengthening the inter-sectoral linkages of the economy'. Towards this end, Article 5 envisages the enhancement of 'the role of the private sector' and foreign investment.

The package of specific investment incentives that are available to both domestic and foreign investors are embodied in Regulations No.270/2012. They include customs duty exemption for capital goods and construction materials¹ for all investments other than four spheres of activities stated under Schedules 7, 11, 14 and 15 of the Regulations. Moreover, income tax exemption for the number of years stated in the Regulations is provided for various sectors. The incentives further include income tax exemption for expansion or upgrading, loss carry forward, remittance of fund, land allocation at modest leasehold payment rates, bank loan incentives and facilitating infrastructure and utilities.

However, there are ambiguities and inconsistencies in the path towards achieving the expectations enshrined in Ethiopia's laws that aspire to promote investment which, *inter alia*, is meant to bring about development. This paper briefly inquires into these ambiguities and challenges. The first two sections highlight the setbacks in the pursuit of the linear modernization theory and the evolution of development doctrines from the 1950s to the 1990s. The role of institutions, free trade, infant industry protection and FDI-led takeoff as factors in development are briefly discussed in Sections 3 and 4, followed by the various alternative paths highlighted in Sections 5 to 7. And finally, the last section forwards a synthesis on Ethiopia's development pursuits and setbacks.

1. Aspirations toward 'Linear Modernization' and Setbacks

In the 1950s and 1960's, the theory of *modernization* envisaged that economic development will go through *linear stages* from 'traditional' societies with agrarian subsistence economies to the interim phase of '*pre conditions of takeoff*' followed by the '*take off*' (i.e. *industrialization*) phase which will then lead to *maturity* (sustained level of productivity and international network) and ultimately to the replacement of basic subsistence needs by '*mass consumption*.'² Kaldor, for example, believed that "there can be little doubt that the kind of economic growth which involves the use of modern technology and

¹ Investment Incentives and Investment Areas Reserved for Domestic Investors Council of Ministers Regulations No.270/2012, Article 13.

² W. W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (3rd Ed. 1991), pp 4 ff.

which eventuates in high real income per capita, is inconceivable without industrialization”.³ The ‘*take-off*’ phase was presumed to lead to industrialization and entrepreneurial classes “as they did in Britain in the nineteenth century”,⁴ and it was assumed that during the phase of ‘*maturity*’ “steady economic growth outstrips population growth” after which the ‘*final stage*’ unfolds “when high mass consumption allows the emergence of social welfare”.⁵ This theory assumed that modernizing the law and legal institutions would facilitate development, surplus capital and then investment capital.

The waves of codification of laws in Ethiopia in the late 1950s and early 1960’s clearly show efforts to enhance development through legal and institutional reform. In 1964, Emperor Haile Selassie remarked: “In a real sense, the development of the nation depends upon the development of our legal institutions”.⁶ With regard to the role of legal education in development, the Emperor gave emphasis to the role of the administration of justice in a modern state which “demands well trained qualified persons at every level”⁷ and underlined that “Ethiopia needs a modern legal profession just as she needs the modern legal system”⁸

The preamble of the 1960 Commercial Code of Ethiopia reads “... the progress of Our Empire in the field of commerce requires the codification of our Commercial Laws...” Moreover, the preface of the Commercial Code, paragraph 3, states that the Code “will assist in the swift and orderly development of Ethiopia’s economic life.” Similarly, the preamble of the 1960 Civil Code of Ethiopia states the significance of the Code for the “orderly development of the legal system”. The preface of the Civil Code (paragraph 1) further relates its promulgation with the “modernization of the legal framework of [Ethiopia’s] social framework so as to keep pace with changing circumstances of the world” and “in order to consolidate the progress already achieved and facilitate yet further growth and development.”

A strong link was envisaged between ‘*law and development*’ in the preambles and prefaces of the Ethiopian Commercial Code and Civil Code

³ N. Kaldor (1966) *The Causes of the Slow Rate of Growth in the United Kingdom*, Cambridge: Cambridge University Press. P. 54 (in Peter Sheehan (May 2008) “Beyond Industrialization”: New Approaches to Development Strategy Based on the Service Sector “*UNU Wider*, Research Paper No. 2008/60.

⁴ Baker (2006), *Sustainable Development* (London: Routledge), p. 2.

⁵ *Ibid*, citing (Pepper 1996).

⁶ Emperor Haile Sellasie’s speech for the First Law Extension program Graduating Class. HSIU, 4 November 1964, *Journal of Ethiopian Law*, Vol. II, No.1 (1965), page iii.

⁷ *Ibid* p. ii.

⁸ *Ibid*.

promulgated in 1960. Both had the objectives of ‘modernizing’ Ethiopia’s legal system and legal institutions through reforming the law and modernizing legal institutions along the footprints of western legal systems and institutions. As the Emperor’s speech cited earlier indicates, focus was given to legal education and the legal profession which were believed to be inseparable from the reform of laws and legal institutions. In short, the enactment of many Ethiopian Codes of Laws in the 1960s, the establishment of Haile Selassie I University Faculty of Law (currently Addis Ababa University School of Law) in 1963 and the subsequent efforts and international support clearly reflect the views, aspirations and commitment of those decades.

Max Weber’s explanation⁹ regarding the “role of modern legal system in the emergence of Western civilization” shows that legal development occurred simultaneously with “political and economic transformation” and he regarded these legal, political and economic factors as ‘mutually causative’ which led to “the industrial system and the centralized nation-state”.¹⁰ Weber admits that Europe’s rational legal system had positive contributions toward the development of capitalism and industrialization in Europe. However, modernizing a legal system, according to Trubek’s analysis of Weber’s theory, does not on its own “produce economic development,” but “merely helps structure the free market system”.¹¹

Unlike the assumption of the ‘linear development theory’, the findings of Hans W. Singer and Raúl Prebisch indicated the gradual deterioration of terms of trade between exports of primary product (e.g. food) and industrial products. This was so because income from export of industrial products has elastic demand while the demand for primary products is inelastic. The *Singer-Prebisch* thesis also indicated the wild fluctuation in export price of agricultural products and advocated *structural reform* which, *inter alia*, needs “restructured international economy on historically different terms”.¹² The theory called for infrastructural development to enhance intra-regional trade, border region development, and ultimate regional integration among developing economies.¹³ This theory has influenced the domestic laws of many countries and the

⁹ Max Weber, (1978, Guenther Ross & Claus Wittich, eds.) *Economy and Society* (Berkeley: University of California Press).

¹⁰ David M. Trubek (1972) “Toward a Social Theory of Law: An Essay on the Study of Law and Development” *The Yale Law Journal* Volume 82 No. 1 (82 Yale L. J. 1) at 12.

¹¹ *Ibid*, 15.

¹² Lan Cao (1997) (1997) “Law and Economic Development: A New Beginning?” *Book Review, Texas International Law Journal*, Vol. 32, p. 555.

¹³ Jose A. Ocampo, (2001) “Raúl Prebisch and the development agenda at the dawn of the 21st Century”, *CEPAC Review* 76, at 35-37.

international legal regime as can be noted in “structural accommodations for certain developing country preferences” within international trade regimes.¹⁴ Moreover, it has encouraged sub-regional and regional custom unions and free trade areas among developing countries.

The critique forwarded by the *structuralist* model against the *modernization* theory of development was further sharpened by the *dependency theory* which, among other things, advocated *Import Substitution Industrialization* (ISI). Supporters of the ‘*dependency*’ theory¹⁵ argued that the ‘core’ world economy would not allow developing countries to go through the western path of economic development because they are passive ‘peripheries’ of the centre to which they serve as suppliers of raw materials and recipients of mass production. Dependency theory “sees international economic relations in a world capitalist system as contributing to the underdevelopment or distorted (dependent) development of states in the periphery”.¹⁶ According to Tamrat Zerihun, the failure of the dependency theory to offer the promises it had made is mainly attributable to the failure of agriculture “to provide the necessary industrial capital”.¹⁷

In contrast to the theories above, the ‘*human capital*’ development theory gives prime focus to education, health and other human development indicators.¹⁸ This theory contends that poverty alleviation and various aspects of economic and social justice ought to be focal points of development, and that resources allocated for education (for example) fall within the domain of investment and not consumption. The influence of this conception is apparent in literature and reports (of various international organizations and transnational institutions) such as UNDP Human Development Reports.

It is, however, to be noted that, in spheres of development such as education, focus on quantity rather than quality and standards is detrimental to human development. This is because human development does not arise from hasty expansion in the number of universities and graduates (which obviously pushes up a country’s ranking in Human Development Index/ HDI), but from real development in education with effective thresholds in quality and standards.

¹⁴ Lan Cao, *supra* note 12, p. 556.

¹⁵ For example: Andre Gunder Frank (1967) *Capitalism and Underdevelopment in Latin America*, London: Monthly Review Press.

¹⁶ David F. Greenberg (1980) “Law and Development in Light of Dependency Theory” *Research in Law and Sociology*, Volume 3, page 138 [in *Law and Development*, Edited by Antony Carty, Dartmouth Publishing Co., 1992] p.98.

¹⁷ Tamrat Zerihun, (1988) “The Development-Underdevelopment Controversy: Comparative Highlights” *Birritu*, No. 38; 18.

¹⁸ Theodore W. Shultz (1979) “Nobel Lecture: The Economics of Being Poor” *Journal of Political Economy*, 1980, Volume 88, No. 41, pp. 639- 651.

Human development presupposes ‘to be’ and ‘to do’ what the graduate profile envisages in the domains of competence, behaviour and attitudes rather than the mere ‘having’ of degrees and diplomas of various nomenclature under a setting of a meteorically rising numbers with compromised quality and standards. It is the real achievements attained in education and training services and not sheer numbers that can augment a country’s institutional capabilities and human capital which are decisive in the pursuit of knowledge-based economic development.

In spite of their differences, the various theories of development considered the third world as a bloc and regarded the theories as applicable to all members of the third world. Moreover, the theories optimistically contended that progress was achievable and regarded the law as a tool towards development and the state as a political entity that can actively facilitate the process. According to Schuurman, Post World War II developmental paradigms shared at least three characteristics:

- “The essentialisation of the Third World and its inhabitants as homogeneous entities;
- The unconditional belief in the concept of progress and in the makeability of society;
- The importance of the (nation) state as an analytical frame of reference and a political and scientific confidence in the role of the state to realise progress”.¹⁹

In spite of the variation in policies and the underlying theories thereof, the post-war period until 1970 can be regarded as “*The Age of Regulation*”, in contrast to the “*Transition Period*” of the seventies and “*The Age of Deregulation*” from the eighties until the present.²⁰ These periods can further be classified into the decades which represent distinct concepts and notions of development.

2. Evolution of the Development Doctrine: 1950’s to 1990’s

Thorbecke analyzes the evolution of the development doctrine (from 1950 to 2005) by classifying the periods into decades. “The development economists’ tool kit in the *fifties* contained such theories and concepts as the ‘big push’ (Rosenstein-Rodan 1943), ‘balanced growth’ (Nurkse 1953), ‘take-off into sustained growth’ (Rostow 1956) and ‘critical minimum effort thesis’

¹⁹ Frans J. Schuurman (2000). “Paradigms lost, paradigms regained? Development studies in the twenty-first century” *Third World Quarterly*, Vol. 21, p. 8.

²⁰ Ha-Joon Chang (2003) *Globalisation, Economic Development and the Role of the State* (London & NY: Zed Books) pp. 159, 165, 170.

(Leibenstein 1957)".²¹ During the fifties, the emphasis on large-scale investment "was strongly influenced by the relatively successful development model and performance of the Soviet Union between 1928 and 1940".²² During this period, industrialization was considered as "the engine of growth which would pull the rest of the economy along behind it" and the industrial sector "was assigned the dynamic role in contrast to the agricultural which was, typically, looked at as a passive sector to be 'squeezed' and discriminated against".²³ Development was perceived from the context of modernisation "and, in turn, modernisation was equated with westernisation".²⁴

During the decade that followed, i.e. the *sixties*, 'economic dualism' was influential and the role of agriculture was recognized "as a supplier of resources by being an active and co-equal partner with modern industry". This period was marked by "[t]he success of South Korea and Taiwan in nurturing their agricultural sector and using the agricultural surplus to achieve a successful industrial take-off ..." ²⁵ As Hettne observes, the strategy of development during the 1950s and 1960s "was country-based and the state the main agent, supposedly guided by development theory. Often this guidance was based on 'development ideology' ".²⁶

In the *1970s*, the increasingly worsening economic situation in low-income economies resulted in lesser reliance on "GNP as a dominant all-encompassing objective".²⁷ Development was redefined "as a process that should have as simultaneous objectives: growth and poverty alleviation".²⁸ The role of the informal sector and traditional agriculture in the process of development were

²¹ Erik Thorbecke (2007). "The Evolution of the Development Doctrine, 1950 – 2005", in *Advancing Development: Core Themes in Global Commons*, Mavrotas & Shorrocks, Editors (New York: Palgrave Macmillan), page 5.

These concepts equated growth with development and viewed growth in low-income economies "as essentially a discontinuous process requiring a large and discrete injection of investment", and the 'big push' hypothesis emphasized "the importance of economies of scale in overhead facilities and basic industries" (p.5). The 'take-off' principle required "a minimum threshold of the investment to GNP ratio ... given the prevailing capital--output ratio" and "the 'critical minimum effect thesis' called for a large discrete addition to investment to trigger a cumulative process within which the induced income-growth forces dominate induced income-depressing forces"(pp. 5-6).

²² *Ibid*, p. 6.

²³ *Ibid*.

²⁴ Jennifer A. Elliot (2006). *An Introduction to Sustainable Development*, 3rd Ed. (London: Routledge), page 15.

²⁵ Thorbecke, *supra* note 21, pp. 8, 11.

²⁶ Björn Hettne (2009). *Thinking about development* (Zed Books), p. 2.

²⁷ Thorbecke, *supra* note 21, p. 11.

²⁸ *Ibid*, p. 12.

also recognized. *The decade of 1980s* was converted into the ‘lost development decade’ and was predominated by stabilization and structural adjustment policies owing to the debt crisis.²⁹ This period witnessed a “strong sentiment to do away with aid altogether and have private capital flows substitute for it”.³⁰

The 1990s was increasingly dominated “by the neoliberal policies of the World Bank (WB) and the International Monetary Fund (IMF)” and they were considered as appropriate policies to enable many developing countries to come out of severe balance of payments difficulties that grew worse since the 1980s and “that were considered to threaten the international financial system as a whole”.³¹ This period was marked by the structural adjustment programs (SAP) of the IMF and World Bank that aimed at modifying “the structure of an economy so that it can maintain both its growth rate and the viability of its balance of payments in the medium term’ (Reed, 1996: 41), i.e. to address issues of debt”.³²

This decade of neoliberal economic doctrines and structural adjustment programmes naturally came up with prescriptions of trade liberalization and privatization in Ethiopia. The economy had combined the dual features of ‘underdevelopment’ (which it shares with other Sub-Saharan African countries) and that of a ‘transitional’ economy due to the features that it shared with Eastern European economies thereby augmenting the complexity of the path.

3. The Role of Institutions in Development: Reciprocal Causal Relations

The role of good governance and institutions in development is awarded attention since the 1990s. The word institution should not be conflated with the term ‘organization’³³ because it represents a wider concept than organizations. As Douglass North points out “[i]nstitutions are the humanly devised constraints

²⁹ *Ibid*, p. 15.

The 1980s also witnessed ideological changes influenced by Reagan’s and Thatcher’s administrations during which “developing countries were strongly encouraged - if not forced - to rely on the operation of market forces and in the process to minimize government activities in most spheres - not just productive activities” at a time when a strong state was required to effectively balance conflicting measures such as stabilizing balance of payments and simultaneously liberalizing trade. (p. 19)

³⁰ *Ibid*, p. 19.

³¹ Elliot, *supra* note 24, page 24.

³² *Ibid*, pp. 24, 25.

³³ John Vogler (2003), “Taking Institutions Seriously: How Regime Analysis can be Relevant to Multilevel Environmental Governance”, *Global Environmental Politics*, Volume 3, Number 2, May 2003, p.26.

that structure political, economic and social interaction”³⁴ which may be informal such as “sanctions, taboos, customs, traditions, and codes of conduct” or formal³⁵ enforceable legal rules such as contracts and property rights. North notes “the evolution of political and economic institutions that create an economic environment that induces increasing productivity”.³⁶ He argues that the development of institutions is incremental and they “provide the incentive structure of an economy” because as the structure evolves “it shapes the direction of economic change towards growth, stagnation, or decline.”³⁷

Chang observes that institutions refer to both “the *forms* of institutions (such as democracy, independent judiciary, etc.) and the *functions* that they perform (such as rule of law, respect for private property, government effectiveness, enforceability of contracts, maintenance of price stability, the restraint on corruption)”.³⁸ Chang identifies two categories of theoretical problems in the dominant discourse on institutions and development. He criticizes the assumption “that the causality runs from institutions to economic development, ignoring the important possibility that economic development changes institutions”.³⁹ Secondly he criticizes the manner in which “the relationship is theorized in a rather simplistic, linear, and static way”.⁴⁰ Chang does not deny the role of institutions in development but envisages a dual and reciprocal relationship between economic and institutional development:

Economic development changes institutions through a number of channels. First, increased wealth due to growth may create higher demands for higher-quality institutions (e.g., demands for political institutions with greater transparency and accountability). Second, greater wealth also makes better institutions more affordable. Institutions are costly to establish and run, and the higher their quality, the more ‘expensive’ they become. Third, economic development creates new agents of change, demanding new institutions.⁴¹

³⁴ Douglass C. North (1991), “Institutions”, *The Journal of Economic Perspectives*, Vol. 5, No. 1. (Winter, 1991), p. 97.

³⁵ *Ibid.*

³⁶ *Ibid.*, p. 98.

³⁷ *Ibid.*, p. 97.

³⁸ Ha-Joon Chang (2010), “Institutions and Economic Development: theory, policy and history”, *Journal of Institutional Economics* (2011), 7:4, p. 485.

³⁹ *Ibid.*, p. 476.

⁴⁰ *Ibid.*

⁴¹ *Ibid.*

Chang further clarifies his position that his views should not be misconstrued as saying institutions do not matter.⁴² Developing countries cannot have ready-made and full-fledged institutional competencies and capabilities at the threshold of ‘Global Standard Institutions’. This is because institutional development presupposes incremental progress and is reinforced by other dimensions of development which in return shape and facilitate the direction and pace of economic and social development.

Although most of Chang’s core arguments are plausible, it is difficult, in the context of Sub-Saharan Africa, to assert that “the causality may be stronger” in the direction of “economic development improving institutions” than “better institutions promoting economic development”.⁴³ First, this argument solely refers to formal institutions and does not consider the strong informal institutions such as what Max Weber states as ‘the protestant *work ethic*’ that preceded and accompanied Europe’s industrial revolution. Secondly, the experience in Sub-Saharan Africa (in the context of the current global system (which gives primacy to ‘free trade’ rather than ‘fair trade’) differs from the earlier experience in other economies which managed to take-off despite relatively modest levels of institutional development. Thus, a Sub-Saharan African country which, for example, is under civil war or political instability ought to resolve its institutional problems (at least to a certain level of peace, stability and functional institutions) before any meaningful economic development can be achieved.

4. ‘Free’ Trade, Infant Industry Protection and FDI-led Takeoff

Although the United Nations had declared the 1970s as the ‘decade of development’, it “turned out to be a very bad decade for most of the countries of the South”.⁴⁴ The earlier period of national and social movements that pursued a spectrum of optimistic policies and ideologies was followed by “the period 1970–2000 which saw the downfall of most of these movements in power, or at least a drastic revision in their policies” as a result of “the period of the flourishing of globalization” and the resultant disillusionment.⁴⁵

⁴² Ha-Joon Chang (2011), “Reply to the comments on ‘Institutions and Economic Development: Theory, Policy and History’ ”, *Journal of Institutional Economics* (2011), Volume 7: 4, p. 597.

⁴³ Chang (2010), *supra* note 38, p. 476.

⁴⁴ Immanuel Wallerstein, “After Developmentalism and Globalization, What?” (Keynote address at conference, ‘Development Challenges for the 21st Century,’ Cornell University, Oct. 1, 2004), *Social Forces*, March 2005, 83(3) p. 1264 .

⁴⁵ *Ibid*, pp. 1268, 1269.

Since the 1980's, *neo-classical* liberal theories of development promoted free markets and trade liberalization in developing countries. Yet, low-income economies have encountered problems in the course of liberalization and globalization. The Asian Financial Crisis of 1997, for example, demonstrated that “the poor in an era of globalization tend to be more vulnerable to external (essentially macro-economic shocks)” thereby making it “important to design and implement a set of safety nets and structural measures that would reduce their vulnerability”.⁴⁶

Thorbecke contends that globalization is not a reliable substitute for a domestic development strategy and suggests that developing countries should pursue both active liberalization and active domestic development policies rather than passively wait for “the market forces of globalization to pull them on a fast development track”.⁴⁷ He notes that passive liberalization, may lead to marginalization and countries “need to strengthen institutions as well as to invest in agriculture in order to reach the take-off-point for structural transformation of their economies to proceed”.⁴⁸

The prescriptions of free trade and liberalization clearly benefit developed countries and newly industrialized economies. As Chang duly notes, “the developed countries did not get where they are now through the policies and the institutions that they recommend to developing countries today”.⁴⁹ The mercantilist policies of Britain gave way to Adam Smith's notions of free trade at a time when it was Europe's leading industrial power. Most of the current developed countries “actively used ... policies, such as infant industry protection and export subsidies – practices that these days are frowned upon ...”.⁵⁰

Chang supports the arguments forwarded by Friedrich List (1789-1846) “commonly known as the father of the infant industry argument, namely, the view that in the presence of more developed countries, backward countries cannot develop new industries without state intervention, especially tariff protection”.⁵¹ List recalls Britain's restrictions⁵² and argues that in the absence of such schemes “their newly established native manufacturers could never hope to succeed in free competition with the old and long-established manufacturers of foreigners” whom Chang lists out as the “Italians, the Hansards, the Belgians,

⁴⁶ Thorbecke, *supra* note 21, p.31.

⁴⁷ *Ibid.*

⁴⁸ *Ibid.*

⁴⁹ Ha-Joon Chang (2003), *Kicking Away the Ladder: Development Strategy in Historical Perspective* (Anthem Press), p. 2.

⁵⁰ *Ibid.*

⁵¹ *Ibid.*, p. 3.

⁵² *Ibid.*, p. 4.

and the Dutch”.⁵³ List argues that “free trade is beneficial among countries at similar levels of industrial development” and “that free trade benefits Britain but not the less developed economies”.⁵⁴

Any nation which by means of protective duties and restrictions ... has raised her manufacturing power ... to such a degree of development that no other nation can sustain free competition with her, can do nothing wiser than *to throw away these ladders* of her greatness, to preach to other nations the benefits of free trade, and to declare in pertinent tones that she has hitherto wandered the path of error, and has now for the first time succeeded in discovery the truth.⁵⁵

List recalls Adam Smith’s prescription of ‘free trade’ to the USA at a time when it was not yet adequately industrialized. The warning given by Adam Smith to Americans regarding the risk involved in restricting imports from European manufactures was that it “would retard instead of accelerating their future increase in the value of their annual produce, and would obstruct instead of promoting the progress of their country towards real wealth and greatness.”⁵⁶

However, “the Americans firmly rejected Smith’s analysis in favour of ‘common sense’ and ‘the instinct of what was necessary for the nation’, proceeding to protect their infant industries with great success after 1816”.⁵⁷ As Chang points out, US protectionism continued until it emerged as the world’s leading industrial superpower after which it became the vanguard for free trade although it “acquired such supremacy through the nationalistic use of heavy protectionism”.⁵⁸

Globalization has considerably narrowed down the policy space towards infant industry protection (IIP) strategies. Primarily, global pressures against such policies are strong. And secondly, cultural globalization has enhanced consumerism thereby creating strong pull factors toward legally and illegally imported merchandises of consumption and affluence. Thirdly, the current influx of low-price goods from China and other newly industrializing countries and their competitive price despite tariffs further exacerbates the pressures on local infant industries, in effect, rendering the effective protection of infant industries difficult. This does not, however, justify neo-liberal free ride against the interest of developing economies but rather shows the extent to which developing countries find it difficult to climb up the ladder towards

⁵³ *Ibid.*

⁵⁴ *Ibid.*

⁵⁵ List, in *Ibid.*, pp. 4, 5.

⁵⁶ List in *ibid.*, p. 5.

⁵⁷ List in *ibid.*

⁵⁸ *Ibid.*

industrialization even if it had not been kicked away by the developed economies that used it while they were developing.

As Ozawa recalls, “post-war Japan effectively pursued the Hamilton-List IIP [Infant Industry Protection] strategy in modernizing its capital-intensive industries (e.g., steel, machinery, automobiles) by borrowing and improving on Western technologies”.⁵⁹ Even if the Second World War had devastated Japan, it “re-started *first* with then-comparatively advantaged, labor-intensive light industries and quickly redeveloped exports (e.g., toys, textiles). Japan’s light industries did not need – and in fact, *avoided* – investments by foreign multinational enterprises (MNEs)”.⁶⁰

In contrast to the infant industry protection paths undergone by Britain, Germany, USA and Japan during their initial take-off in industrialization, FDI-led kick-off seeks to use foreign investment as “a *new* jump-starter of industrialization and a more expedient alternative to the inward-looking IIP strategy”.⁶¹ To this end, Singapore, Taiwan and South Korea “had to set up export-processing zones to attract labor-seeking FDI in the 1960s-70s, since they lacked the experience of producing manufactured exports”.⁶² These countries “succeeded in attracting labor-intensive manufacturing, the *first* step to industrial modernization” while China “[opened] up for trade and FDI in 1978” and “China’s special economic zones and low-wage labor enticed foreign MNEs to build China’s low-cost, export-driven manufacturing, swiftly alleviating poverty”.⁶³ Such FDI-led takeoff at “the *beginning* stage of catch-up” has been effective in these “labor-abundant emerging economies” subject to the caveat that advanced industrialization depends “increasingly on knowledge” and demands “more sophisticated approaches”.⁶⁴

In the Ethiopian context, neo-liberal prescriptions are not only against infant industry protection (a scheme which is indeed difficult under the current global system), but do not also bring about FDI-led take-off unless FDI is accompanied by various endogenous and exogenous variables that are analogous and comparable to the economies that benefitted from it. This is because FDI-led take-off involves active (and not passive) liberalization to attract foreign investment in spheres where the host economy has a competitive advantage which presupposes national and sector-level competitiveness.

⁵⁹ Terutomo Ozawa (2012), “FDI, catch-up growth stages and stage-focused strategies”, *Columbia FDI Perspectives*, No. 70 (May 28, 2012).

⁶⁰ *Ibid.*

⁶¹ *Ibid.*

⁶² *Ibid.*

⁶³ *Ibid.*

⁶⁴ *Ibid.*

5. Informal Institutions and Poverty Reduction

Craig and Porter state the three central dimensions of Poverty Reduction Strategy Papers (PRSP), i.e. economy, governance, poverty, and they provide critical accounts particularly in relation with the dimension of local governance in Uganda's poverty reduction program. They note Rodrik's observation that "Global integration has become, for all practical purposes, a substitute for a development strategy" despite its "shaky empirical ground" and the distortion it entails in prioritizing policies.⁶⁵ They further underline that "closer studies of globalization typically refer to very uneven and differentiated processes highly dependent on particular local and economic initiative".⁶⁶ The concerns expressed by Craig and Porter include "low rates of growth in high reform countries, unevenness in integration, high adjustment costs and political fallout, and the rise of concerns about longer term path dependence of growth and inequalities".⁶⁷

They explain the experience gained in Uganda with regard to poverty eradication plans and criticize "the plethora of financial stability and integration best practice 'rules' considered necessary for the 'accountable' delivery of resources to areas of local need according to globally determined standards." Instead, they suggest "decentralized, participatory democracies" which (as verified by cross-national studies) not only enhance "economic growth, greater predictability and stability", but are also "more resilient to shocks, and deliver superior distributional outcomes".⁶⁸ However, they note that "[d]ecentralization done with merely technical objectives in mind can merely decentralize tyranny, inadvertently politicize the local executive, and also greatly increase volatility".⁶⁹

Craig and Porter indicate that "[g]lobalization pushes and depends on a progressive shift from informal to formal institutions" and this displaces many locally attuned social norms and rules of conduct with formally specified, globally legible and legally binding norms.⁷⁰ They admit the significance of macro-stability but underline that ultimately it is the "much more specific and local dimensions of polity, society and economy linked to global change that will determine outcomes for many poor".⁷¹ They conclude that International

⁶⁵ David Craig and Doug Porter (2003), "Poverty Reduction Strategy Papers: A New Convergence", *World Development* Vol. 31, No. 1 (Elsevier Science Ltd.) p. 56.

⁶⁶ *Ibid* (citing (Held, McGrew, Goldblatt, & Perraton: 1999).

⁶⁷ *Ibid*. p. 56 (citing Rodrik, 2000).

⁶⁸ *Ibid*. p. 66.

⁶⁹ *Ibid*, (citing Porter & Craig, 2002).

⁷⁰ *Ibid*. p. 66.

⁷¹ *Ibid*.

Financial Institutions need to avoid ‘narrow blueprints’ in both peripheral and semi-peripheral economies, and “still be within a legitimate comprehensive frame”, while local governments ought to “be able to send strong signals to IFIs about where specific sectors and places are likely to be disruptively impacted by particular frameworks”.⁷² The lessons that Ethiopia can draw in this regard is the role that various (but not all) informal institutions and social norms play in development and the need to make sure that they are not hastily displaced by formal norms and rules.

6. Post-development Critics and Alternative Paths of Development

Critics contend that “the post-World War II discourse of development is firmly entrenched in Western modernity and economy”.⁷³ According to Escobar, the conception of ‘alternatives of development’ requires “a theoretico-practical transformation of the notions of development, modernity and economy”.⁷⁴ Escobar notes that “the peoples of Asia, Africa and Latin America did not always see themselves in terms of ‘development’ and that [this] goes back only as far as the early post-World War II period” when a whole new political economy - different from that of the colonial or pre-war period - was set into place.⁷⁵

Post-development critics contend that the notion of development has become “obsolete and bankrupt” thereby invoking “alternatives to development”.⁷⁶ According to Matthews, the “environmental destruction which the post World War II development project appears to bring about” and other factors such as broken post-World War II promises and western cultural homogenization⁷⁷ are the causes for the rise of ‘post-development’ literature. These critics forward, *inter alia*, ‘relativist’ conception of development dependent upon the values and cultures of communities in developing countries.

The current post-modern conception considers development as “an imposition of institutions and values by the West on areas deemed to be in need of development, guided by an over-ambitious, all-explanatory development

⁷² *Ibid*, p. 67.

⁷³ Arturo Escobar (1992) “Imagining a Post-Development Era? Critical Thought, Development and Social Movements,” *Social Text*, No. 31/32, *Third World and Post-Colonial Issues* (Duke University Press), p. 22.

⁷⁴ *Ibid*.

⁷⁵ *Ibid*, 23, 24.

⁷⁶ Sally Matthews (2004) “Post-development theory and the question of alternatives: A view from Africa” *Third World Quarterly*, Vol. 25, No. 2, page 373

⁷⁷ *Ibid*, 377.

theory”.⁷⁸ This post-modern conception considers low-income economies “as legitimate objects for development intervention, more often than not of a harmful kind”.⁷⁹ Pieterse criticizes the recipes of development policies that are regarded as “relevant across countries and regions”⁸⁰ and regards developmentalism as “the theorization (or rather ideologization)” of the path pursued by the western world.⁸¹ According to Pieterse, “[t]he crisis of developmentalism as a paradigm manifests itself as a crisis of modernism in the west and the crisis of development in the south”.⁸²

Hettne believes that “this harsh assessment is not completely groundless, but nevertheless somewhat exaggerated.” On the positive front, he admits that development thinking has a rich tradition “encompassing important theoretical debates on the dynamics of social change, as well as an ambition to represent a global experience of empirical conditions in different local corners of the world”. He suggests that “[t]his rather healthy baby must therefore, in spite of all criticism of the ‘modern project’, not be thrown away with the bath water, but allowed to grow up into ‘global social theory’.”⁸³

Most post-development critics do not refute the need for development pursuits in developing countries, but they envisage multi-modal perspectives depending upon the particular realities of a given country in lieu of a monolithic conception of development. As Cox notes, “[t]he issue for the future structure of world order had become universal globalization versus alternative paths of economic, social and cultural development; or one all-absorbing civilization versus a coexistence of several civilizations”.⁸⁴

Globalization says: There is no alternative. In the thinking of globalization, societies will inevitably be shaped to conform to the requirements of economic competition which means they will become more and more alike. Those who contest globalization affirm the possibility of alternatives that embody values both derived from their past and imagined as more desirable futures. ... There are signs that rampant individualism may have passed the point at which it serves as a dynamic of economic competition to become a threat to social cohesion.⁸⁵

⁷⁸ Hettne, *supra* note 26, p. 2.

⁷⁹ *Ibid.*

⁸⁰ Jan Nederveen Pieterse (2010), *Development Theory* (London: Sage), pp. 13, 29.

⁸¹ *Ibid.*, p. 17.

⁸² *Ibid.*, p. 28.

⁸³ Hettne, *supra* note 26, p. 2.

⁸⁴ Robert W. Cox (2000), “Thinking about Civilizations”, *Review of International Studies*, Vol. 26, p. 219.

⁸⁵ *Ibid.*, p. 225.

In the context of Sub-Saharan Africa, there is growing disempowerment of the states trapped in debts and deficits. This phenomenon is currently unfolding in a global system with a relatively narrow segment of benefactors and nascent levels of corporate responsibility. The coalescence and refinement of global development inevitably encounters challenges as was the case during the various phases in the consolidation of the nation state. As nation states had their darkest periods in history particularly during their earlier centuries, 'globalization' likely continues to facilitate the interest of centres of global power and finance until it eventually reaches at the cosmopolitan height envisaged by various thinkers such as Kant. As Sachs observes:

... 'mankind', for the Enlightenment, was not just an empirical concept meaning the inhabitants of the globe; it had a time arrow built in. 'Mankind', in effect, was something yet to come, a task to be realized as man moves along the path of progress, successively shedding the ties of authority and superstition until autonomy [as an element of social cohesion] and reason would reign.⁸⁶

7. The Notion of the Developmental State

Woo-Cumings points out that the developmental state is "shorthand for the seamless web of political, bureaucratic, and moneyed influences that structures economic life in capitalist Northeast Asia."⁸⁷ Evans regards the concept of the developmental state as neo-utilitarianism and contrasts it with the predatory state. Developmental states take up tasks that go beyond regulatory functions and also undertake entrepreneurial activities as a necessary part of economic transformation.⁸⁸ States, according to Evans, may be developmental or predatory depending upon "the way in which they affect development".⁸⁹ He uses the qualifier 'predatory' where "[t]hose who control the state apparatus seem to plunder without any more regard for the welfare of the citizenry than a predator has for the welfare of its prey." Developmental states "foster long-term entrepreneurial perspectives among private elites by increasing incentives to engage in transformative investments and lowering the risks involved in such investments" and the consequences of their actions promote rather than impede

⁸⁶ Wolfgang Sachs (1992), "One World" in *The Development Dictionary, A Guide to Knowledge as Power*, W. Sachs, Editor (London & New Jersey: Zed Books Ltd), p. 103.

⁸⁷ Meredith Woo-Cumings, Ed. (1999) *The Developmental State* (Cornell University Press) p. 1.

⁸⁸ Peter B. Evans (1989), 'Predatory, Developmental and other Apparatuses: A Comparative Political Economy Perspective on the Third World State,' *Sociological Forum*, Vol. 4, No. 4, p. 562.

⁸⁹ *Ibid.*

transformation and development.⁹⁰ Evans cites the East Asian NICs as examples of a developmental state, Zaire [of the late 1980s] as a predatory state, and Brazil [of the late 1980s] as the illustrative ‘intermediary’ case⁹¹ between a predatory and a developmental state.

According to Vartiainen, three salient features of a successful developmental state distinguish developmental states from post-colonial states that pursued various development policies. *Primarily*, the developmental state must be strong to impose its collective developmental objectives, be meritocratic and ought to be “insulated from both the market and the logic of individual utility maximization”. *Secondly*, the state should have “thick external ties [*embeddedness*] to the economy’s organized agents such as corporations, industrialists, associations and trade unions.” And *thirdly*, there must be “a relationship of *mutual dependence* or *mutual balance* between the state and the rest of the economy” in such a manner that the state can be “able to ‘discipline’ economic actors such as firms and trade unions, while appreciating that their privileged positions ultimately depend on the success of the economy.”⁹²

Amsden holds a similar view when she states that the two major features of a developmental state are the capacity to discipline big business and dispensing assistance to the business sector. She cites Korea, Japan and Taiwan as examples for more effective industrialization in comparison with other late industrializing countries. These achievements, according to Amsden, are attributable to the state’s “power to discipline big business, and thereby to dispense subsidies to big business according to a more effective set of allocative principles.”⁹³

As Chang points out, there are certain problematic features that we can observe regarding the free market economic system that ‘free-marketers’ do not tell us about.⁹⁴ Equally important is the need to distinguish between the level of intervention of a predatory state from that of a developmental state. The latter empowers and monitors economic actors, and to this end, it requires meritocratic institutions that monitor economic actors towards the country’s developmental strategic objectives. Developmental states are thus drastically different from predatory states that are not only considerably corrupt but also

⁹⁰ *Ibid*, pp. 562, 563.

⁹¹ *Ibid*, p. 563.

⁹² Juhana Vartiainen, “The Economics of Successful State Intervention in Industrial Transformation” in *The Developmental State* (1999), Edited by Meredith Woo-Cumings (Cornell University Press) pp. 218-219.

⁹³ A. H. Amsden (1989), *Asia’s Next Grant: South Korea and Late Industrialization*, New York: Oxford University Press, p. 144.

⁹⁴ Ha-Joon Chang (2010), *23 Things they don’t tell you about capitalism*, (London: Allen Lane , Penguin group).

make use of coercive institutions that scare economic actors and intimidate entrepreneurs in the guise of regulatory intervention.

8. Synopsis of Ethiopia's Development Pursuits and Setbacks

Ethiopia has a long history of settled agriculture which dates back over 2000 years, and its ancient civilization is marked by social institutions, obelisks, churches, mosques, palaces, literature and music. However, handicraftsmen (such as goldsmiths, tanners, potters, etc.) were looked down upon until very recently. This seems to have impact on the mainstream mindset which has yet to march towards a strong work ethic, innovation and entrepreneurship.

The religious tradition (both Christian and Islam) gave primacy to religious, moral, social and cultural pursuits rather than economic endeavours. It was during the reign of Emperor Menelik (1844-1913) that various endeavours of 'modernization', in the economic sense of the term, started to bear fruit. This momentum was enhanced during the reign of Emperor Haile Sellassie I (1892-1975) under whose government, the pursuits of 'modernization' continued until the Italian Invasion in 1935, and thereafter.

The last three decades of Emperor Haile Selassie's reign coincide with the decades during which the doctrines of development evolved through aspirations of the 'big push' (such as intensive investment and industrialization) to the doctrine of 'dualism' of agriculture and industry in the path to development. During the 1960s and early 1970s for example, there was progress in modern agriculture. The steady growth of oil seed farming in commercial farms towards the Ziway road, cotton farms in the Awash Valley, etc. were cases in point.

Reservoirs were planned to be built at the headwaters of the Blue Nile based on the studies conducted (in 1958) by Ethiopia in collaboration with the US Bureau of Reclamation in the Department of Interior. This could have enabled Ethiopia to use irrigable land at the size of about "17 % of the current land under cultivation in Egypt"⁹⁵ which would have required "six billion cubic meters of the Nile River" and these dams could have saved over fifteen billion cubic meters per year that are lost due to evaporation and seepage at Aswan High Dam.⁹⁶ These projects could also have reduced "flooding and sedimentation in

⁹⁵ Robert O. Collins (1990), *The Waters of the Nile: Hydropolitics and the Jonglei Canal* (Oxford University Press), p. 279.

⁹⁶ Eyal Benvenisti, *Collective Action in the Utilization of Shared Fresh Waters* (*American Journal of International Law*, July 1996), p. 409, [cited in *Mizan Law Review*, Vol. 1, No. 1, (June 2007) p. 57].

the downstream countries” and enabled hydro-electric generation to the mutual benefit of Ethiopia and downstream users.⁹⁷

This was a lost opportunity for Ethiopia’s economic take-off that could have also made watershed management and environmental preservation in the Blue Nile Basin possible, thereby positively serving the long-term interests of preserving the Nile watercourse itself. Unfortunately, the hydro-politics related with the Blue Nile, reluctance of the regime to allow political and land reform, failure of the regime to allow federal empowerment to Eritrea, and the series of civil wars that escalated since the 1960s took Ethiopia back into turmoil and political instability analogous to its long history of civil wars, palace power struggles and inter-region conflicts.

The global economic crisis which had its impact in Ethiopia, the 1974 drought, and the political realities of the early 1970s led to a revolution, which attempted to transpose Marxist ideology into policies and laws. The modernization theory of economic development (which was already being criticized since the late 1960s), entirely gave way to the dependency model in its Marxist version. Post-revolution policies largely pursued a combination of policies which encouraged the Soviet and Chinese hybrid models of industrialization, state farms, collectivization of villages, cooperative farms, self-reliance and import substitution.

However, these policies did not lead to intensive investment and economic take-off that had transformed the Soviet economy in the 1930’s. Instead, political instability and civil wars continued at an enhanced and steadily increasing pace and magnitude. Nor could the regime implement the Chinese path to development partly because the Ethiopian Marxist leadership was an ensemble of Marxist political groups who were restructured top-down as opposed to the Chinese Communist Party that had a strong mass base, committed membership and decades of embryonic development since the 1920s with ample experience, loyalty and fortitude that was nurtured through the thick and thin.

Ethiopia’s development strategies of the late 1970s and the 1980’s pursued the East European and Soviet models. However, a largely agrarian Ethiopia (with its subsistence economy) could not attain the objectives aspired, and state farms were largely inefficient and subsidized. Policies that were largely influenced by the dependency theory and import-substitution policies could not lead to significant economic development. Yet, the efforts and achievements in the realm of reforestation and environment protection were showing positive results in the 1980s.

⁹⁷ Kefyalew Mekonnen (2002), cited in *Mizan Law Review*, Vol 1, No, 1 (June 2007) at 57.

The Reagan-Thatcherite global policies and balance of power during the 1980s had its impact in Ethiopia. A policy of mixed-economy was issued during the late 1980s although it did not live up to the expectations and needs of the private sector and the society at large. The 1990s witnessed change of government, privatization and a significant revival of the private sector. Pursuits toward market economy cohabited with certain aspects of the earlier features of the economy such as the land law regime. The salient feature of this period seems to be the alternating influence of various development doctrines and policies that include IMF-World Bank prescribed privatization, structural adjustment, institutional restructuring, state ownership of land and the notion of the developmental state.

In the realm of human development, there is indeed a considerable achievement that has widened access to education at all levels. Yet, the figures of achievement need to be examined in light of the actual number of graduates who have in fact acquired the thresholds and standards of *competence* and *capabilities* that the transcripts and testimonials represent. There are commendable achievements in infrastructure, economic growth and integration with the global economy, subject to the *caveat* that the real yardsticks lie in 'sustainable development' rather than 'growth', and in social wellbeing with a broader mass-base rather than elite affluence.

Concluding Remarks

Contemporary development thinking seeks to give order to the development process as in the case of addressing the destructive dimensions which include "poverty and unemployment of the potential productive power".⁹⁸ Current conceptions of development and the pursuits thereof are thus directed to the negative and positive qualities of development and are "founded upon the antinomies of positive and negative as much as positive and normative".⁹⁹ From this perspective, "intentional development is inseparable from the whole process of development" and expresses "the intent to compensate for what is regarded as being deficient" and at the same time "offers the prospect of an aspiration for an improved future".¹⁰⁰

Due attention is thus necessary to make sure that every investment project serves the objectives of '*development*' and '*improved living standards*' of people as envisaged under the Ethiopian Constitution and the Investment Proclamation. Cowen and Shenton believe that the desire for improvement is

⁹⁸ M. P. Cowen & R. W. Shenton (1996), *Doctrines of Development* (London & New York: Routledge), p. ix

⁹⁹ *Ibid*, p. 445.

¹⁰⁰ *Ibid*.

usually “a desire grounded as a reaction to the past deficiency of development with respect to the present, not merely a speculative prospect of a future from the present”.¹⁰¹ They hold that post-development malcontents “recreate a very much pre-modernist prognosis for development”.¹⁰² The concluding paragraph of their book suggests that we ought to have visions that emanate from the future and they should be “visions of free development and not doctrines of development”.¹⁰³

Such ‘visions’ of free development can still be as vague and complex as doctrines of development. Without thus disregarding the need for a synthesis of doctrines that can inform policies and laws, there is the need to take the twin objectives of Ethiopia’s investment law (i.e. development and rising standards of living) into account whenever investment projects are accorded licence, allocated land and offered with various incentives that can easily be usurped and misused by speculators (both foreign and local) who travel in the bandwagon of “investment”.

As the experience of other countries has proven, quick-fixes based on ‘doctrines of development’ and mere good intentions to raise standards of living usually fail, in the absence of institutional capabilities (which *inter alia* include the requisite knowledge base, work ethic, level of trust in the society, the culture of saving and investment, conducive laws and policies, good governance, and meritocratic job assignments). These institutional factors have always been *sine qua non* conditions for effective developmental pursuits and for the corresponding rise in standards of living.

In the absence of such institutional capabilities, mere endowment with abundant natural resources merely creates what is known as the ‘resource curse’ as the rent and interest gathered from natural capital (as experienced in various African countries) merely beefs up the foreign bank accounts of corrupt members of the political and ‘business’ elite. Nor is global integration the magical cure, because the realization of the promises of the integration in the form of economic and social benefits is directly proportional to the level of institutional capabilities. The solution towards addressing these challenges does not thus seem to lie in conducting ‘business as usual’, but in the courage of citizens and policy makers to admit and address visible facts that speak louder than misleading statistical figures of ‘economic growth.’

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¹⁰¹ *Ibid*, p. 456.

¹⁰² *Ibid*, p. 476.

¹⁰³ *Ibid*.
