



National Policy-level Workshop on Fostering Productive Capacities in Ethiopia for Industrialization, Export Diversification, and Inclusive Growth

Concept Note¹

(Advance, unedited)

Background

Ethiopia is a landlocked country in East Africa with an estimated population of 115 million people and a GDP of US\$ 93 bn in 2019². The country has recently been one of the fastest growing countries in Africa, with average annual growth exceeding 10% for the 15 years preceding the coronavirus pandemic (7.3 % in per capita terms). Fast growth has enabled the second-most populous country in Africa to achieve significant development gains, including poverty reduction. According to the World Bank, poverty in Ethiopia decreased from 30% in 2011 to 24% in 2016, and in urban areas it fell to 15%³, whereas life expectancy at birth has jumped from about 47 years in 1990 to 66.6 years in 2019. However, Ethiopia remains a Least

¹ All figures in the concept note are from the latest international databases notably the World Bank, United Nations Conference on Trade and Development (UNCTAD) and the International Monetary Fund (IMF) for the sake of consistency and international comparability. Due to data harmonization, coding and adjustment processes, there could be discrepancies between national and international data sources.

² The figure of US\$ 93 bn is rounded up from US\$ 92,750 bn, the UNCTADStat for Ethiopian GDP in 2019 (at current prices). Available at: <https://unctadstat.unctad.org>.

³ The figures refer to national poverty lines and are taken from <https://www.worldbank.org/en/country/ethiopia/overview#1>. The urban poverty figure is from <https://www.worldbank.org/en/country/ethiopia/publication/ethiopia-poverty-assessment-poverty-rate-declines-despite-challenges>

Developed Country, with a Gross National Income per person of US\$ 828 in 2019, according to UNCTADstat.

Although agriculture makes up more than a third of GDP, its share has been steadily shrinking. Over the past decade, Ethiopia's high growth rates have been driven primarily by growth in the service and industrial sectors which, respectively, account for 36.5 % and 27.3 % of GDP in 2018. Although, the share of agriculture has declined from about 40 % of GDP in 2010 to 31.2% in 2018, nearly 80% of the country's population resides in agriculture and about 80 % of export originates in the sector⁴. Ethiopia also aims to develop textile manufacturing through the construction of industrial parks, attracting foreign investment with tax breaks and duties waivers.

Ethiopia's merchandise exports reached US\$ 3.2 bn in 2014 but have retreated to US\$ 2.7 bn in 2019. Its main exports continue to be agricultural products, especially coffee, cut flowers as well as gold. Exports have been dwarfed by growing imports, leading to significant trade deficits -US\$ 13.8 bn in 2015, retreating to US\$ 11.8 bn in 2019 (For more details on trade data see <https://unctadstat.unctad.org>).

Foreign investment in Ethiopia has increased significantly over the past decade, rising from less than \$700 million in 2011 to \$4 billion in 2017⁵. In large part, FDI comes from China, which has financed numerous Ethiopian construction and infrastructure projects including the Addis Ababa-Djibouti Railway. The persistence of the coronavirus incidence, escalation of domestic armed conflict during 2021 and the loss of preferential access to the US market through African Growth and Opportunity Act (AGOA) may affect the growth and recovery prospects of the country during 2022. Moreover, Ethiopia's external debt burden has also been consistently increasing from 31% of GDP in 2019 to 47% in 2021, partly due to borrowing to contain the spread of Covid-19 and partly to ensure the country's overall peace, security and stability. The total public debt of Ethiopia (including domestic borrowing) stands at 66% of GDP in 2021 up from 57.7 % in 2019⁶.

According to the World Bank, IMF and UNCTAD estimates, the economic growth rate for Ethiopia remained solid at 8.4 % and 6.3% in 2019 and 2020, respectively. However, not surprisingly, growth has plummeted to 4.3 % in 2021 and forecast to plunge further to 3.7% in 2022. The declining trends are the combination of several shocks including armed conflict, the Covid19 pandemic, and natural disasters in some parts of the country. These negative factors are further compounded by the declining household expenditure, weaker business consumption and investment, and a weaker net trade position of the country Ethiopia aims to continue its growth-path with the goal of becoming a lower middle-income economy

⁴ Oxford Economics (Country Quarterly Updates for Ethiopia, November 2021).

⁵ <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=ET>

⁶ Data is from the World (<https://data.worldbank.org/indicator/DT.DOD.DECT.CD?locations=ET>) and Oxford Economics (Country Quarterly Updates for Ethiopia, November 2021).

(requiring a GNI per capita of US\$ 1'046) by 2025. In 2020, Ethiopia launched its 10-year economic development plan under the theme 'Ethiopia: An African Beacon of Prosperity'. The plan aims to consolidate the gains made and focus on quality growth.

UNCTAD has long argued that to achieve inclusive and sustained growth, developing countries should build productive capacities and foster structural economic transformation. Conceptually, the notion of productive capacities is defined by UNCTAD as *“the productive resources, entrepreneurial capabilities and production linkages, which together determine the capacity of a country to produce goods and services and enable it to grow and develop”* (UNCTAD, 2006). Thus, the definition stresses three distinct, but interrelated dimensions of productive capacities – productive resources, entrepreneurial capabilities and production linkages.

To operationalize the concept of Productive Capacities, UNCTAD has recently launched the Productive Capacities Index (PCI). The index measures productive capacities along 8 components: Natural Capital, Human Capital, Structural Transformation, Energy, Transport, ICT, Institutions, and the Private Sector, drawing on 46 indicators. The composite index provides data for 193 economies between 2000 and 2018 and allows countries to benchmark their performance over time and across countries.

An analysis of Ethiopia's performance on UNCTAD's Productive Capacities Index helps to identify the areas where the country is doing well in building productive capacities, and areas where the country continues to face challenges and binding constraints. Overall, the PCI of Ethiopia is lagging the average of its sub-Saharan peers as well as that of the Least Developed Countries. However, it is rapidly catching up. Among the components, Ethiopia is performing well on Human Capital, where it trails just below the regional average, as well as on structural transformation, where it is rapidly catching up. Ethiopia has also seen significant improvements on the transport score. However, the country continues to lag behind on the private sector, institutions and energy.

While Ethiopia has made significant strides in strengthening its business climate to foster industrialization, some of the remaining challenges include difficulties in obtaining access to land and construction permits, the administrative steps and time required to register a business, inadequate access to finance for local firms, as well as cumbersome customs procedures.

Many of these issues are part of the priorities identified in Ethiopia's 10-year economic development plan. This workshop will focus on how an analysis of Ethiopia's productive capacities, including the key gaps and binding constraints, can assist in the identification of policies and priorities for development policies for industrialization. Overall, socioeconomic vulnerability and sudden growth collapse in Ethiopia and the rest of sub-Saharan Africa are causes and consequences of weak productive capacities and lack of structural transformation.

Objective

Building on the recent socio-economic performance of Ethiopia, the national policy-level workshop will discuss the role of productive capacities and structural economic transformation. It will examine how productive capacities and structural transformation can best be placed at the center of national policies and strategies. The workshop will also present the PCI for Ethiopia. The discussions with national stakeholders will be based on UNCTAD's work on developing the PCI and Ethiopia's performance on it.

Specific issues to be addressed during the workshop include:

- a) Levels of productive capacities in Ethiopia and other developing countries;
- b) Challenges of economic diversification and industrialization, and the implications of export concentration for fostering productive capacities and structural economic transformation in Ethiopia;
- c) The role of transport, trade facilitation and trade logistics in improving the export competitiveness of Ethiopia;
- d) The role of International Supports including market access in fostering productive capacities and structural economic transformation; and
- e) Successful experiences and best practices in policy formulation and implementation for productive capacities, industrialization and structural economic transformation with implications for Ethiopia.

Modality of the national workshop

The national workshop will bring together senior government officials, national and international experts in the field of development, academics and representatives from the private sector and civil societies. There will also be bilateral consultations with key institutions of Ethiopia with the aim to identify key elements of binding constraints and comparative advantages for an in-depth analysis of domestic gaps and limitations in fostering productive capacities through the UNCTAD National Productive Capacities Gap Assessment (NPCGA) for Ethiopia.

The objective of the workshop and consultations will allow for an in-depth, substantive discussion of the technical issues related to building productive capacities and its role in fostering industrialization and structural transformation in Ethiopia.