



# The eastern industrial zone in Ethiopia: Catalyst for development?

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## ABSTRACT

In 2000, China agreed to share with African countries its experience in the field of investment promotion relating to the establishment and management of special economic zones. The Eastern Industry Zone was subsequently established. Of the various zones being built in Africa, Ethiopia's perhaps represents one of the biggest challenges to both the Chinese developers and the host government alike. Utilising insights from evolutionary economic geography and the work of Albert Hirschman, this article seeks to analyse the progress thus far in the Ethiopian SEZ. Spatially discrete, unfocused in terms of clustering and with few linkages to the wider economy, what impact, if any, the development of this zone will have on Ethiopia's structural transformation is discussed. The implications for Ethiopia's wider investment in industrial parks as part of its developmental state project is also drawn out.

## 1. Introduction

In 2000, at the Forum on China-Africa Cooperation (FOCAC) meeting in Beijing, the *Programme for China-Africa Cooperation in Economic and Social Development* was launched, in which China agreed to share with African countries its experience in the field of investment promotion relating to the establishment and management of special economic zones (SEZs) (see Taylor, 2011). Since then, competitive tenders have led to proposals for the development of seven SEZs in six African countries being approved by the Chinese Ministry of Commerce (MOFCOM), including one in Ethiopia: the Eastern Industry Zone (EIZ).<sup>1</sup> Of the seven proposed zones, Ethiopia's represents one of the biggest challenges to both the Chinese developers and the host government alike.<sup>2</sup> Due to its geographical location and the absence of any serious SEZ experience in Ethiopia, the zone's ability to contribute to Ethiopia's economic development remains unclear. Both the Chinese and Ethiopian sides however appear very keen for the zone to work: in May 2014, Chinese Premier Li Keqiang visited the EIZ, accompanied by the Prime Minister of Ethiopia, Hailemariam Desalegn.

Beijing and the various host African governments have marketed the SEZ model as the basis for future deepened collaboration between China and the continent; in December 2015 the Chinese hosted a major

conference entitled "Industrial Parks and Globalization: Experience Sharing Between China and Africa", which sought to discuss best practices and past experiences. The success or otherwise of existing Chinese SEZs in Africa, and the processes engendered by the various projects are thus of crucial importance for discussions around African development and the role that China may or may not play.

This article is based on primary research involving interviews with investors, zone developers and operators, regulatory authorities, government officials, and other key stakeholders conducted in both Beijing and Ethiopia between 2011 and 2017. The study integrates approaches from the evolutionary economic geography (EEG) literature with investigations into the agenda-setting behaviours of both Ethiopian and Chinese actors. Analysis of the zones' potential to have an effect on development in Ethiopia, the current obstacles faced and the potential benefits for relevant stakeholders are outlined. The article also takes into account previous studies of Chinese SEZs in Africa (Brautigam and Tang, 2011; Brautigam and Tang, 2014) as well as a recent study of Ethiopia's industrial policy, which utilises the theories associated with the economist, Albert O. Hirschman (Oqubay, 2015). Fundamentally, the article analyses the progress thus far in the EIZ to identify the strengths and weaknesses of the project and to determine what impact, if any, the development of this zone will have on Ethiopia's structural

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<sup>1</sup> The others are located in Algeria (the Algeria-China Jiangling Free Trade Zone); Egypt (the China-Egypt Suez Economic and Trade Cooperation Zone); Mauritius (the Mauritius Jinfei Economic Trade and Cooperation Zone); two in Nigeria (the Lekki Free Trade Zone, and the Ogun/Chinese Free Trade Zone); and Zambia (the Zambia-China Economic and Trade Cooperation Zone in Chambishi, with a Lusaka sub-zone). The zones in Egypt and Zambia are already operating (the latter at a low-level capacity). Due to the restructuring of the investment policy in Algeria, zone development there has stalled.

<sup>2</sup> It should be added that in addition to the seven official zones, Chinese companies and provincial governments have established, on their own initiative, zones in Botswana (China Daheng Textile Industrial Park); Guinea (Linyi Industrial Park), Nigeria (Lishi-CSI Industrial Park); and South Africa (Shandong Xinguang Textile Industrial Park). Some of these zones (the ones in Nigeria and Sierra Leone, for instance) originate from rejected proposals to MOFCOM during the tendering rounds.

transformation. This last point is important given that the SEZ scheme is a central component of FOCAC and is heralded as a concrete way in which Beijing is exporting its “model” of development to Africa. More concretely, the Ethiopian government has decided that the EIZ is an integral part of its *Sustainable Development and Poverty Reduction Program* (SDPRP) and the key element in its industrial development ambitions (Federal Democratic Republic of Ethiopia, 2002, 2010). The zone’s contribution to structural transformation is vital if the EIZ is to have a demonstrable effect on sustainable development in Ethiopia. Structural change is here taken as an increase in the share of industry or services in the economy, or as the broadening and sophistication of exports or as the move of workers from low labour productivity sectors to those with high labour productivity (Sindzingre, 2013).

## 2. Special economic zones and evolutionary economic geography

EEG emerged from developments within New Economic Geography (NEG), which aimed to integrate features typically included within the Geography discipline with economic theory to understand spatial agglomeration of industries (Krugman (1991a, 1991b). Modifying the typical emphasis on comparative advantage to include a focus on spatialised economies of scale, the NEG approach shed light on how spatial themes associated with resource distribution and the conveyance of commerce influenced economic results, such as the relocation of produce, persons and businesses (and/or the other way around) (McCann, 2001). The NEG sought to comprehend the links between economic endeavours and geography through the interface of processes of attraction and repulsion, which act at the same time to prompt firm relocation (van Vilsteren and Wever, 1999). For instance, transportation prices are a key clustering influence. If transport was free, spatial dispersion of businesses would likely develop and there would be a growth in urban areas, but with lower population rates. Of course, in the real world transport costs money and so commerce rationally gravitates to situate itself in an increasingly reduced amount of urbanised centres (Fujita et al., 1999). Other clustering forces include returns to scale, knowledge transfers and advantages drawn from crowded labour markets (Helsley and Strange, 1990).

A key criticism of the original trend in NEG was its devotion to abstract models, its treatment of space and its neglect of history and time. For NEG, the economic terrain is classically considered as a given while time is limited by the focus on equilibrium outcomes and local stability analysis. Actual time and or history are neglected (Boschma and Frenken, 2006; Martin, 1999; Garretsen and Martin, 2010). Ron Martin has argued that in contrast, economic geography must involve a commitment to studying real places, recognising that local specificity matters and also the role of historico-institutional factors in the development of places (Martin, 1999). One path out of the problems identified with NEG is through evolutionary economic geography (EEG), which emphasises historical processes that have generated uneven spatial development. This approach gives explanation for the spatial progression of businesses, industries, urban centres and regions grounded in studies on the history of the entrance and development and/or the failure and subsequent departure of companies, and their spatial activities (Storper, 1997). EEG typically emphasises the regional scale given that development is often limited by geography (Boschma and Frenken, 2006). An EEG methodology helps in understanding uneven spatial development within countries and also addresses some of the concerns about NEG. Given that economic endeavours across space are the result of principally dependent historical developments and that geographical space is characteristically economically uneven (Harvey, 2006), tackling these issues necessitates spatially-focussed interventions; SEZs must be understood in this light (Rogerson, 2009).

Special Economic Zones can be understood as a blanket term used to describe a variety of economic initiatives including, but not limited to, Free Trade Zones (FTZs), Export Processing Zones (EPZs), Industrial Zones and Free Ports (Tiefenbrun, 2012). SEZs are best understood as

spatially defined geographic areas designed to attract foreign investment by providing economic and commercial policies that are more liberal than in the rest of the country, along with infrastructure investment designed to facilitate streamlined operations and lower transaction costs for investors. Experiments around such spatial clusters have been ongoing in Africa for some time (see Söderbaum and Taylor, 2008). In China’s case, “bringing in” (*yin jinlai*) foreign direct investment, technology and skills was central to the SEZ methodology as practiced post-Mao (see Gao and Chi, 1997; Park, 1997; and Zheng, 2010). As a rule, SEZs are long-term orientated, usually taking over a decade to mature, and are evolutionary and flexible by nature: as an SEZ develops, its objectives and priorities invariably change. EEG, with its attention to how the spatial structures of the economy develop from the behaviours of economic agents and how the processes associated with this work together to shape geographies of economic development and transformation is pertinent in this regard (Boschma and Martin, 2010).

Typically, a usual evolution is characterised by a shift in focus from attracting foreign direct investment (FDI) to technology-upgrading, with a strong focus on encouraging *domestic* private investment. The methods employed to achieve these objectives—including incentives and policies—are adjusted where and when necessary to meet the changing needs of investors, the host government, and the wider context of the global economic environment (Ge, 1999). Utilised effectively, successes are popularized and up-scaled whilst failures are discarded and lessons are learned. In short, as an ideal type, SEZs represent a kind of testing ground, an incubator of ideas and policies designed and implemented to take advantage of comparative advantages in host economies (Carter and Harding, 2010). However, it is not uncommon for SEZs to fail to reach maturity or to have the desired catalytic impacts that the SEZ prospectuses promise (Palit and Bhattacharjee, 2008). Studying concrete examples of actual SEZs is thus vital if their actual, rather than claimed, efficacy is to be evaluated competently.

The focus of SEZ academic analysis has increasingly been on secondary effects, such as backward and forward linkages and technological and skills transfers. Johansson in particular looked to the secondary effects as “catalytic” and the potential for SEZs to serve as catalysts for development is now dominant (Johansson, 1994; Johansson and Nilsson, 1997; Litwack and Qian, 1997; Din, 1994). SEZ’s catalytic effects and a zone’s capacity to stimulate an advancement in performance and the transfer of technology are now central, with an emphasis on development-inducing secondary effects (Aggarwal, 2005). This new attention makes clear linkages the possibility of structural transformation and zone developmental properties and fits with the more embedded EEG approach. This is particularly appropriate given the performance of SEZs in Africa specifically (see Farole, 2011). Today, over twenty African countries have played host to various industrial clusters but for reasons that echo much of the situation in the EIZ example, the broad results have been largely uninspiring. It is for this reason that an assessment of the Ethiopian SEZ is pertinent.

## 3. The Eastern Industrial Zone – overview and objectives

The Eastern Industrial Zone in Ethiopia was initially planned in 2007 and launched in 2009. Located in Dukem, Oromia state, around 30 kilometres south-east of the capital, Addis Ababa, the original plan was to establish a 5 km<sup>2</sup> zone operated by the Yonggang Group and the Qiyuan Group, which in five years would entice eighty separate investment projects, creating 20,000 jobs (Brautigam and Tang, 2011). However, the Yonggang Group soon abandoned the project and the zone currently consists of an area of 2 km<sup>2</sup>, a downsizing of over 50%.<sup>3</sup> Like most other Chinese SEZs in Africa, the Ethiopian zone is 100%

<sup>3</sup> Interview with Ministry of Industry official, Addis Ababa, January 2011.

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