Structural Transformation is a Defining Moment that Leads Ethiopia to Modern Development

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April 26, 2011

Introduction

Ethiopia has had different defining moments that make her survive for thousand years. One defining moment, for instance, was the war against colonialist in the second half of the nineteenth century, which culminated in the battle of Adwa. Today Ethiopia has to choose another defining moment to ensure the unity of the people and survival of its cultures. This defining moment is the process of structural transformation. In this paper I will try to offer a new conceptual approach to the current political discussion on Ethiopia, centred on the notion of structural transformation.

Before proceeding to the different levels of analysis as regards the concept, need, mechanisms and paths of structural transformation, I would like at first mention few words how I arrived at the choice of structural transformation (“my ideology”) as a defining moment.

Manner of Explaining Structural Transformation

Basically there are two fundamental approaches in solving the core problems of the Ethiopian people. There are those who focus on government objectives and policies (study of effects that had come as a result of a policy or limit of the reform). There are others who study the structural problems of the country (lack of development, where development should take place, who is the prime mover, how can development be sustainable, etc.). The former is done
mainly by assessing the performance of the various sector programs while the later analyses the system and the context in which the programs are formulated and aimed to address. So my first step to arrive at structural transformation is based on my choice to focus on structure problems of the country--the question “what should aim the reform bundles” is central to my understanding.

The second inter-related stage is to identify the approach in studying the structural problems of the country. The problems of the country has often been explained and interpreted using various theories that put the blame either on the tradition/institution (Chole 2004; Kebede 1999), on the state (Hameso and Hassen, eds., 2006), on the market (Zenawi 2006), and/or on problems of governance and capacity (MFED, 2002). However, continued environmental degradation, growing poverty and lack of institutional stability compels one to reflect on the approaches and development suggestions arrived by these theories. Is there another competing and fresh perspective which explains the structural problems of the country? I consider rapid population growth and pressure as the essence of the structural problem and as an approach to identify the potentials and priorities of development reforms.

Based on this approach I studied different aspects of the population problematic in Ethiopia for the last ten years: effects of population growth (Tsegaye 2004, Malmberg and Tegenu 2007), labour force growth (Tsegaye and Bo 2010), effects of population pressure (Tsegaye and Bo 2010), urbanization (Tsegaye and Bo 2010). My theoretical, methodological and empirical studies led me to conclude that lack of development in Ethiopia is a consequence of structural conditions and it can be solved only in connection with structural transformation.

**What is Structural Transformation?**

Structural transformation is an understanding of the connections between the sectoral composition of economic growth and poverty reduction. Based on literature review Szirmai
(2005) defined structural transformation “in which factors of production are transferred from the sector with the lowest productivity, agriculture, to the industrial sector where productivity is much higher and the pace of technological change and productivity growth is more rapid”. He continued that “structural transformation involves more than changes in the sector alone. It also refers to increase in savings and investment rates, rapid urbanization, demographic transitions with declining death rates followed by later decline in birth rates, epidemiological transitions, changes in income inequality and changing social institutions, attitudes and beliefs which modern economic growth would be impossible”.

In a similar manner, Timmer (2007) wrote that “structural transformation involves four main features: a falling share of agriculture in economic output and employment, a rising share of urban economic activity in industry and modern services, migration of rural workers to urban settings, and a demographic transition in birth and death rates that always leads to a spurt in population growth before a new equilibrium is reached”. I have studied some of these features in the Ethiopian context (see reference).

**Why Ethiopia Needs Structural Transformation?**

The first reason is related to the growth of the labour force and an increase in the agricultural surplus labour (see [http://aigaforum.com/articles/GreenRevo_Industrial_policy_Ethiopia.pdf](http://aigaforum.com/articles/GreenRevo_Industrial_policy_Ethiopia.pdf)) seeking for non-farm employment. There are two sources for labor surplus growth in rural areas. The first is the under employed labor engaged in the crop production of the child-rich households. The second source is the addition of young adults who enter the labour force for the first time. Each year there are new entrants in the labour and this is estimated this to be around four hundred thousand.

Employment is created through: i) land/resource fragmentation: through partition and redistribution, ii) area expansion: into wildlife inhabited lands or fragile environment areas, iii)
share-cropping and land rent (accesses), iv) farm wage labour. Generally speaking employment creation is through de-accumulation of assets/resources. There is heterogeneity of activities but not diversification (there are no new field of activities with new products). I found no transformation of structure of output/input (specialization based on an exchange economy).

The second reason why Ethiopia needs structural transformation is associated to household multiplications, low agricultural productivity and consumption deficit in rural areas. Early household formation and the increase in the proportion of marriage had multiplied the number of households over time. Children born from a father had literally formed a cluster of village (group of households) around a single family. Of the 11,749,925 households in rural Ethiopia, 56% are child rich households and the rest of them are labour-rich households. The child rich households have higher consumption requirements and lower economic support ratio. The multiplication of the child-rich households increases the consumption requirements and land demand of the households.

While rural households multiply and their consumption increases, agricultural labour productivity in rural Ethiopia has remained on the same level for decades despite growth in grain output (see http://aigaforum.com/articles/Green_Revolution_PartTwo.pdf). Growth in grain output is a result of an increase in inputs (mainly land), and not technological progress and institutional innovations.

The third reason why Ethiopia needs structural transformation is connected to the country’s geo-political situation (the Red Sea coast, the Nile water, religion, and cold war ideology). External aggression and threat since the second half of the nineteenth century has reinforced state functionality. Particularly, since the discovery of oil resource in the Arab countries in the 1960s, the threat has increased and demanded building the fiscal and military base of the state. Financing the military expenditure, which I think is the largest size of state expenditure, requires sustained economic growth and expansion of the tax base. The need to
increase the military expenditure is further compounded by the formation of weak and fragile states on the Horn of Africa.

The fourth factor is linked to the increasing trends of globalization: (a) worldwide active communication systems; and (b) fluent economic conditions, especially high mobility of financial resources and trade. Currently, a greater level of integration is taking place among different regions of the world, and that this integration is having an important impact on economic growth and social indicators. To take advantage of the greater opportunity created by the global markets the structure of the Ethiopian economy has to change and focus on some kind of specialization.

*How was Structural Problems Addressed in the Past?*

Economic development encompasses a wide range of concerns. To some economists, economic development is an issue of more economic growth. To those who think that government should more actively direct the economy, economic development is a code phrase for capital accumulation, investment and industrialization. To environmentalists, economic development should be sustainable development that harmonizes natural and social systems. To liberalist, economic development means the promotion of market economy. To political scientists it is more an issue of democratic governance.

Theories of economic development abound. Varying in basic, fundamental ways, they make different behavioural assumptions, use different concepts and categories, explain the development process differently, and suggest different policies. The theories used by economic developers determine, either explicitly or implicitly, how these developers understand economic development, the questions they ask about the process, the information they collect to analyze development, and the development strategies they pursue.
Since 1974 revolution various types of development approaches and theories have been used to foster development in Ethiopia. In this note I cannot discuss individual theories per se with the aim to elaborate their perspective, method, approach, central concepts, essential hypotheses and derived strategies. For the purpose of discussion, I can categorize the various types of development approaches into two categories: i) development by ideology, 1974-2005, and ii) development through structural change, 2006-present.

Development by ideology started in 1974 and it was mainly a result of the obsession with radical and battle speed development. To bring about a speedy end of poverty the Derg proclaimed socialism and nationalized all lands and industries; formed co-operatives, carried out villagegization, etc. EPRDF declared the primacy of nation and nationalities (ethnic ideology as is known in the academic literature) and there was a sweeping decentralization reforms and liberalization of the economy, among other things. Socialist revolution of the Derg and the ethnic ideology of EPRDF, though they constitute a sweeping, fundamental change in the political organization and economic property control, they have not yet precipitated a synchronous transformation of the socioeconomic sectors and systems in Ethiopia. It may be so that not all radical situations end in structural transformation. The positive outcome of the state-led development of the Derg period is the favourable situation created for the growth of the Ethiopian population particularly as a consequence of the nationalization and distribution of rural lands. EPRDF’s decentralization program has created larger local capacity to absorb investment and financial aid.

The second type of development path is recent and it aims to increase growth rate and bring about transformation. One may trace the awareness as far back as 2006 with the start of the economic growth. Various reform programs aimed to solve structural problems are being launched or planned and these include the expansion of the road infrastructure development programs, the high economic growth rate, the electrification program (Gibe II and III),
attaining of the Millennium development goals, allocation of farmland for large scale
agriculture investment, declaration of Growth and Transformation Plan (GTP) and the plan to
build a hydroelectric power dam along the Blue Nile River. Though there is a debate over the
design and implementation of these programs, the reforms represent a qualitatively different
awareness and package of development programs aimed at structural changes.

**What are the Mechanisms of Structural Transformation?**

While I see EPRDF’s approach radically different from the past, my question is will the
reforms bring about the desired structural changes. As I have tried to analyze GTP, (see
http://www.aigaforum.com/articles/reflection_on_gtp.php), each program packet should be
analyzed with the attention it deserves and this requires time. My spontaneous reaction is that
there are no sequences and timing in the programs aimed to bring about structural changes.
Some programs, which may have purpose of scaling up process, may not bring about
structural change. In my previous postings on green revolution and industrial decentralization,
I outlined the mechanisms and listed them in the order of their sequence and priority:

1. industrialization of small and medium towns for the creation of productive employment,
2. state-led green revolution for the purpose of food security,
3. rural land reform and consolidation for the purpose of migration and resource
   reallocation,
4. green revolution by smallholder farmers for the purpose of capital accumulation and
   creation of production and consumption linkages,
5. program of family planning (method to plan rather than prevent children) for the
   purpose of increasing household savings.

As I pointed out there is a difference as to who leads green revolution and in the priorities
and management of industrialization in Ethiopia (for details see the article).
What are the Pathways of Structural Transformation?

Even if structural transformation in a given country is inevitable, its outcome depends on sequence and timing of the reforms. Timmer (2007) explains three alternative paths for a country’s structural transformation:

“The first path, following the basic logic of the Lewis Model, holds labor productivity constant in the industrial and service sectors, as they absorb labor from the agricultural sector at the same rates as each sector itself expands. This labor-intensive path of industrial and service growth leads to the fastest structural transformation. The second path looks at the opposite extreme, where labor productivity in the industrial and service sectors grows at the same rate as the sectors themselves. Thus neither sector absorbs any new workers at all, so the entire increase in the labor force remains in agriculture. The third path is halfway between these two extremes, with labor productivity in the industrial and service sectors growing at half the rate of increase in sectoral output.” Which pathway of structural transformation is Ethiopia going to experience?

Structural transformation leads to Structural Stability

Structural transformation is not only a cause and effect of economic growth. It provides sustainable economic development that has a capacity to manage social change without resorting to violent conflicts. Structural transformation leads to structural stability.

In a document of 1996, the European Commission offered the following definition of the term: “Structural stability is to be understood as a term denoting a dynamic situation, a situation of stability able to cope with the dynamics inherent in (emerging) democratic societies. Structural stability could thus be defined as a situation involving sustainable economic development, democracy and respect for human rights, viable political structures,
and healthy social and environmental conditions, with the capacity to manage change without to resort to violent conflict.”

Working towards structural transformation means reinforcing those factors that enable peaceful change. Structural transformation can change the cultural and economic basis of local identity, which is a source of parochialism. Local identity tends to irrationally favour those from own kin (family, village, ethnic group) no matter what the cost. This is because of the overriding functional importance of nuclear families in the social organization and in the manipulation of agricultural resources (Silverman 1968). Parochial values and attitudes in an organization leads to ineffectiveness, as decisions are made based on who supports the decisions, rather than on the merits of the ideas. As Timmer (2007) pointed out “structural transformation puts enormous pressure on rural societies to adjust and modernize”.

Raising productivity in the agricultural sector through green revolution gives agriculture economy and rural society characteristics similar to the industrial sector, at least in terms of productivity of labour. When this is accompanied by urbanization and decentralized industrialization, local identity loses its breeding ground. With the creation of modern economy we also see the disappearance of zero-sum thinking and suspicious culture. Working towards structural transformation means reinforcing factors of institutional stability, efficiency and effectiveness.

**Concluding Observations**

Centuries after centuries Ethiopians are faced with challenges of poverty and internal civil wars that characterize the state of their present development. The time has now come to change the past and mark the beginning of a transformed Ethiopia. The EPRDF economic reform packages including infrastructure development programs, the economic growth rate, the electrification program (Gibe II and III), allocation of farmland for large scale agriculture
investment, GTP and the plan to build a hydroelectric power dam along the Blue Nile River can be seen as a process which may lead to a structural transformation of the Ethiopian economy and society. According to Timmer (2007), “structural transformation is the main pathway out of poverty for all societies”. Discussing the need, approach, mechanisms, implementation styles and effects of structural transformation helps to find a successful pathway out of poverty in the near future. My understanding is that structural transformation is the major question of our time.

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