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College of Business and Economics
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Master of Public Management and Policy

**Framing the Debate on Industrial Development Strategy and Foreign
Direct Investment in Creating Positive Externalities:**

By Eshetu Dub

Addis Ababa, Ethiopia
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Direct Investment in Creating Positive Externalities:**

By: Eshetu Dub

**A Thesis Submitted to Addis Ababa University College of Business and
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May, 2020

Statement of Declaration

I, the undersigned, declare that, this thesis is my original work, has never been submitted in this or any other university, and that all resources and materials used herein have been duly acknowledged.

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Statement of Certification

This is to certify that the thesis prepared by Eshetu Dub entitled: “Framing the Debate on: Industrial Development Strategy and Foreign Direct Investment in Creating Positive Externalities: In Sight from Three Industrial Parks; Bole-Lemi, Eastern, Huajian Textile and Leather (Sectors Performance, Gaps and Prospects in the Two GTPs)” compiles with the regulations of the university and meets the accepted standards with respect to originality and quality.

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Chair of Department or Graduate Program Coordinator

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Acronyms

AACSA	Addis Ababa Chamber of Commerce and Sectoral Association
ADB	Africa Development Bank
ADLI	Agricultural Lead Industrialization
ATR	African Transformation Report
EDRI	Ethiopian Development Research Institute
EIC	Ethiopian Investment Commission
GTP	Growth and Transformation Plan
IMF	International Monetary Fund
IPDC	Industrial Parks Development Corporation
LIDI	Leather Industries Development Institute
MoFEC	Ministry of Finance and Economic Cooperation
MoFED	Ministry of Finance and Economic Development
MOI	Ministry of Industry
NICs	Newly Industrialized Countries
NPC	National Planning Commission
TIDI	Textile Industries Development Institute
UNCTAD	United Nations Commission for Trade
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organization
WB	World Bank

Abstract

This study is on Industrial Policy, Foreign Direct Investment, and positive externalities. The study focuses on the nexus among the policy, the institutional arrangement of lead agencies and support institutions with firms in industrial parks in Addis Ababa. The firms are selected from the Textile and Garment, the leather and related industries as they are promoted as priority sectors in the IDS. The IDS has been promoted in the two GTP periods accompanied by debates on performance and results not only in monetary terms but also in producing positive externalities that could enable competitiveness at the global stage. Three industrial parks were selected to have the perspectives of the managers who work for the enterprises in those industrial complexes as a proxy to measure the externalities that are being produced in the process. Managers by and large view the policy objectives are not seriously followed, performance are not rewarded as such, as they are not punished. Knowledge, skill, managerial know-how, process know-how's, institutional capacity building, and championing export are acknowledged promoted policy wise according to the managers understanding. The overall result of the study shows, goals other than capital formation and employment creation, are not monitored and evaluated consistently in all institutional arrangements that have or should have significant contribution. Therefore, the policy learning from implementation feedback is weak. No coherent system and metrics to measure the externalities generated from FDI driven firms is not in place. Which in turn have limited to what extent positive externalities are generated, what factors affected the process and why left unchecked. As a result the policy implementation is found to be largely flawed.

Key words: IDS, FDI, Externalities, Manager, Institution, Linkage.

CHAPTER ONE

1. INTRODUCTION

In modern Ethiopia's political economy history, modernization and industrialization seem to be the twin concepts that are contentious, at the same time corollary, and discussing one of them, more often, at least implicitly, seem to suggest the existence of the other. (Zeweda,2008). The development discourses, therefore, more often explicitly or implicitly colored with the ideas of emulating forerunners (Geda, 2011). The 20th century Ethiopian intellectuals aspiration for modernization at time driven by passionate, deeply felt regrets bordering shame on the level of the backwardness they found their countries in, they not only condemning themselves for the backwardness, they were also urging the leadership to feel the same and device ways urgently to end the gruesome reality (Bykedagne,1992).

The seed of the industrialization dream veiled in the ambition to modernize started in earnest at the wake of the 19th century (Geda, 2011). The exposure few of the very fortunate have had in a visit they made to the modernized world gave rise to the opportunity to come with the seeds of change, some with ideas of incremental change, some other with angry, impatient, radical change. However, there was one thing common to both camp, that is the unsustainability of the backward agrarian economy and the system that try to sustain it (Zewda, 2008). Ever since then the successive generations have continued to be hunted by this idea of modernization, which In a sense was an aspiration to see a transformed economy and society. (Ibid, 2008). The idea of radical change that came from the exposure to the industrialized economy is industrialization itself. Industry is defined as “any form of economic activity through which people produce goods and service for their consumption or sale while industrialization is the process a country establish manufacturing industries.” (Rodrick, 2008). Other definition views industrialization as “a socio-economic change that transforms a human group from an agrarian into an industrial society, involving the extensive reorganization of an economy for the purpose of manufacturing.” (Ohno and Fujimoto, 2006)

The exposures and inspirations were fair beginning to initiate and start developing cottage industries amid a deeply feudal system under the imperial regime. That period saw a good deal of foreign investment; reversed entirely under the military government with it less and less business friendly regimes, even by the standards of the feudal government it had replaced. (Altenburg, 2010). Then the modernization dream, at least in economic sense disrupted, the momentum discontinued, as a result the industrialization process, more specifically the manufacturing attempts on some import substituting cottage industries ended up registering miniscule gains that were not sufficient to support itself as profitable venture, let alone to support the economy in any way meaningful (Gebryes, 2009).

The road to the industrial policy as some close observers of the policy formulation process suggest could be viewed in phases, for instance, (Uqubay, 2015) has discussed the post 1991 years up to 2002 as a period of transition characterized by a major state building as "a precondition to transform the country and achieving mid income status by 2025". The 2nd phase which covered 9 years (2003-2012), in what he had referred to as a period of clarity. A period in which the country have got a clearer national vision with national strategies and policies in key sectors. One of the focus areas of this study, the national industrial strategy, came into being at the cusp of phase one and two, at the end of the first phase and the beginning of the second marked the life of the IDS.

What came after the 2nd phase is the GTP I and its sequel the GTP II (The Growth and Transformation Plans) those plans are dubbed "comprehensive" transformational plans by those who formulated them. The plans fundamentally share the same overarching objectives. They are about "achieving a rapid, sustainable, broad based economic growth through creating conducive macro-economic environment." (NPC, 2016). The second GTP is an extension of the first one in its broader schemes, in which structural transformation of the economy is at the heart of everything; depicting export promotion as key role player. This is envisioned to be realized via supporting the creation and growth of manufacturing through export led industrialization, which implies the central role the private sector should play.

At the end of the first GTP the evaluation reports from all domestic and oversea sources were not favorable. Though almost all the key sectors did not meet the planned targets, the industrial sector, especially the concern of this study, the manufacturing sector, more narrowly the textile and leather sectors fall short of the target both in terms of growth performance and the structural change they were expected to deliver (NPC, 2016, IMF, 2016, UNCTAD, 2017). The reasons attributed for the short comings include, but not limited to, the following factors: low levels of private investment, low level of capacity, low level of entrepreneurship promotion, low level of SME development, low level of non-farm job creation.(NPC,2016, MoFED,2012).

The second GTP has also gone more than half way at the time of the data collection for this study. Reports at the macroeconomic level, so far, are showing still slow movement in the shifts expected from the manufacturing sector (MoI, 2017: 18). Despite the performance deficit, Ethiopia is still regarded as one of the most accomplished country in Africa and among the top performers in attracting FDI, even by the most stringent international reports (UNCTAD, 2017, IMF, 2015, MOFEC, 2017). Contrary to this bright pictures, the results of the export in all sectors is getting poorer and poorer as years goes by; the manufacturing sector here again stagnate where it was years back. (NBE, 2016, MOFEC, 2017). At the time of the study close to two years since the Birr is devalued against the basket of major currencies, the forex crunch has worsened; the national debt is rising after enjoying a considerably fair stability amid the persisting forex challenge (MOFEC, 2017, IMF, 2017).

The question is why a nation with a sustained modernization dream and which is credited for doing wonders in its GDP growth could not be able to achieve the manufacturing sector goal even half way close to its plan? As mentioned earlier the country is ranked as one of the top recipient of foreign capital, but very little is known beyond the volume of the investments. Thus, the study is about searching an explanation why the Textile and Garment, the Leather and Leather related products industries, especially those built with foreign capitals does not contribute to the export sector development, which are the most obvious indicators of performance gaps (MoI, 2017).

The export performance wherever success stories recorded in IDS and FDI nexus it has been the composite effect of other direct and indirect factors (Lall, 1996). Export performance is an intricate process and measuring result as complex. This is why the researcher of this study would like to argue, the persistent deficit in the export performance have a predictive implications on the other externalities: Technology, knowledge, process, managerial know how, skills, institutional development. It is also an issue for many concerned to what extent foreign owned firms is benefited by the IDS, and how they do reciprocate (in the form of the externalities discussed above); how do they interact with the bureaucracy (their respective supportive agencies (Textile Industries Development Institute (TIDI) and Leather and Leather related Industries Development Institute (LIDI) and with lead agencies like EIC, IPDC, MOI)

As the study focus on what the government's delineated strategic areas, what strategic improvement are expected of them to help assist the nation to come out of the manufacturing deadlock with a special emphasis on the two sectors pointed above.

1.2 Statement of the Problem

The debate on industrial policy is multi-fold. It starts with its importance and merit, in the recent past the issue has fair share in the discourses of national development and international political economy. Especially it had enjoyed a great deal of attention after the Asian miracle (Studwell, 2014). The resurgence of industrial policy and the populization of the debate brought to a broader attention by international institutions like that of the World Bank (WB) and the International Monetary Fund (IMF). They were debated the success of East Asian industrial policy .The crux of the debate has its center in the way the divided world preferred to acknowledge or discredit the role of a government on a national economy purely on ideological grounds (UNCTAD, 2013).

Scholars are also arguing on different grounds, some are of the opinion that theoretically the rationale for industrial policy is not controversial (Altenburg, 2010). For him the issue rests on finding the right degree of intervention by the government while favoring certain industries over the other. Some yet still made it look very straight forward that the government must play its

role, saying “development is the defining task of government” (Chung, 2007, Kiros, 2018). Chung further noted government must guide all the necessary components of the economy; all the subordinate parts of the state should follow the national strategy articulated by the state including the private sector (Amsden, 1989). For others, like (Krugman, 1983) let alone the extended intervention by the government as proposed by the IDS proponents, targeting some industries, is by and large distorting the market through undue government investment allocation, therefore, IDS has detrimental effect on the economy despite its popularity (ibid, 1983).

The industrial development strategy (IDS) is the first comprehensive strategy of its kind in Ethiopia (Altenburg, 2010). The strategy is described as labor intensive, export oriented, and relies on "focused" investment promotion.(Gebreyus, 2009).The strategy is said to be “home grown” and tried to emulate the forerunners like Germany (its TVET and university system), Japan's (kaizen production system), Chinese (industrial park), (Uqubay,2015). The focused investment promotion is about attracting domestic and foreign investments in the strategic areas selected by the government (EIC, 2017).

The country has considerably succeeds in attracting FDI in the “strategic areas” this study focuses on two of strategic industries: Textile, Leather Industries. These industries development have many issues to debate about. One, are they growing in accordance with the national strategy? If so, does the growth justify the strategic importance attach to them? How about the quality of the investment, especially the FDIs? Quality versus volume is part of the debate. Volume of FDI does not always translate into rapid economic development, the quality and effectiveness is very important to do so. (Stiglitz, et al, 2013). What constitute quality and effectiveness however, is largely depends on the policy objectives (Chang,2007)

FDI is pursued to gain from its multi fold advantages, apart from the most obvious, quantifiable economic advantages; like capital and employment, there are other gains that are challenging to quantify: Learning effects, is a case in point; not only for the manufacturing sector development, it does also serve as the governing rationale for pushing the industrial policy (Ochemglu and Robinson, 2006). Developing nations are advised to pursue the IDS for its learning effect as much for its immediate economic benefits, because knowledge is one factor that is spurring the

growing inequality in most parts of the globe (Stiglitz et al, 2013). As it was pointed out earlier the accumulation of factors of production and productivity will result in transformation, the argument in this regard is a kind of chicken and hen, which comes first? Learning or efficiency? Some argue for learning, for instance, (Studwell, 2014, Amsden, 2003, Lin, 2013) argued developing nations should invest on learning before they start to worry about efficiency. Others, like (Krugman, 1983) strongly held the results of industrial policies are 'superficial' to be taken seriously by serious economists, because they often missed the dynamics of the economy to score their point; and what are considered to be good results are 'distortionary effects' that gives undue signals in the market.

Yet others extend the argument farther than industrial policies, for instance (Weis, 2015/6) argued the process of state and market building are complementary and they have resulted in mutually supportive institutions in Ethiopia, therefore, the debate over the relevance of the policy is irrelevant. No matter how the arguments are going, Ethiopia is being implementing its version of industrial policy since 2002/03. The declared intentions behind the policy are clear, the results are at best mixed, the sub optimal export performance, the cyclical foreign currency crunch, the stagnated manufacturing sector contribution to the GDP are some of the problems of highest order in Ethiopia's economy today (IMF, 2016). The aforementioned problems are for long discussed as structural malaises of Ethiopia's economy. The Industrial development strategy was designed to solve some of these critical problems. But how much do we know the effects of the policies in these sectors beyond the more handy investment figures, employment data etc?

Lack of information and research in the area has contributed to the scanty evidence that we have on the nexus among the IDS, the manufacturing sector development, the FDI's role in the national development. The concern of this study thus is, to assess the FDI positive externalities in the two priority sectors; the Textile and Leather Industries looking through three industrial parks: Bole-Lemi , Huajain, and Eastern Industrial Parks.

Apart from the much discussed contribution in the flow and formation of capital, the FDI's role in creating the other expected externalities, namely; technology , Skill and knowledge transfer, process and managerial know how's institutional capacity building, and other linkage effects like

SMEs development are little known. Consequently, this study aims to explore what is going on in these thematic areas, how key stockholders like that of lead agencies created to direct the sectors development in their respective areas; Leather and Textile sector developments are performing? It is widely believed that carefully following few countries, late comers like Ethiopia could do wonders if they emulate “leader- followers – flying - geese pattern” that have served well the catching up economies (Lin, 2009). It was hinted in the introductory part that Ethiopia has aspired to emulate and has emulated, in Lin's parlance some aspect of policy elements from various developing and developed economies; but mostly from the so called "Developmental Economies". The question here as well is what actually does Ethiopia learn and how this learning has shaping the Leather and Textile sector growth experience in particular and the manufacturing sector in general through the anticipated trickling effects or the positive externalities is the problem area this study is set out to explore and discuss.

1.3 Objective of the Study

1.3.1 General Objective

The general objective of the study is to assess the nexus among Ethiopia's Industrial Development Strategy (IDS) implementation, Foreign Direct Investment (FDI) driven firms that have invested and operating in the two most traditional primary sectors, Textile and Garment and Leather and leather related Industries in the two GTP periods. The study also assess how are they contributing to knowledge, Technology, Managerial, Institutional capacity building efforts of the nation in the eyes of Ethiopian managers and experts working in the selected industrial parks and the policy implementers alike.

1.3.2. Specific objectives

- To assess what sort of policy benchmarking does shape the policy
- To understand operating institutional interfaces among state actions and firms in the parks.
- To inter proxy externality targets implicitly suggested through results.

1.4 The Research Question

The Research inquires to have answers for the following questions;

- How the capacity building and transferable externalities are observed by experts, managers in the sectors and the regulatory bodies that follow-up the subject?
- What are the underpinning realities that affect the nexus among Ethiopia's Industrial Development Strategy (IDS), Foreign Direct Investment (FDI) to generate positive externalities.
- How the policy is perceived by park managers while in implementation and how they perceive the feedback loop is working to right things.
- How the lead agencies manage their relationship with the firms to discharge their duties?
- What are the factors export shaping performance and gaps in the two priority sectors?

1.5 Significance of the Study

The Industrial Development Strategy (IDS) and its implementation is a nascent experience in Ethiopia's macro-economy. A lot is happening in various sectors to make the way to the industrialized economy. However, working with the same pace in the research area to promote evidence based learning and policy crafting as well as implementation is far from the demands the situation has created.

Therefore, the significance of the study is multi-fold; some of them are stated as follow;

As empirical studies in policy implementation; planning, evaluating and correcting to mutual benefit is a novel experience, the study helps the stockholders to learn from their own experience so as to improve the contribution made by their respective role;

It will help the lead agencies, the scholars and the policy makers alike in their quest for evidence based dialogue to improve policy gains;

It will help in inspiring further study in the same or other areas in the manufacturing sector to build a knowledge base of indigenous nature that could support Ethiopia's context.

1.6 Scope of the Study

The study covers the previous Grand Transformation Plan (GTP I) and the ongoing, the 2nd GTP periods. It is not only limited by time, to make the process manageable and easily understandable two priority sectors designated by the policy document are selected, the Textile and Leather Industries in three industrial parks: Bole-Lemi , Huajain, and Eastern industrial parks (please note that park development is the result of the IDS.)

The study scope is limited to notable FDI externalities: Knowledge, Technology, Managerial knows-how's, trainings (capacity building). The efforts on these areas and the effect thereof on the policy implementation through the experiences of Ethiopian managers working in the three areas in the specified two sectors along with their institutional interface is specifically discussed.

1.7 Limitation of the Study

The research is limited by the scope it has chosen. Thus, it may not be representative; this is to mean the finding may not extend to other areas in the same sector. The qualitative nature of the study and the fact that it depends on the experiential bases of experts and managers in the sector have its own limitation to give an accurate picture. Furthermore, the regulatory bodies irregular follow ups and equally irregular measures do not help in getting accurate information on the behavior of the actors.

The novelty of the experience, the fragmented actions and scanty recording practice by the managers, bureaucrats, experts alike forced the study to depend on the experiences, memories, and judgments of the actors.

1.8 Organization of the Study

Chapter one discussed the introductory aspect of the study. The problem that triggered the effort to pursue the study as well as the scope, the limitations of the pursuit. The basic question of the study set out to answer along with the general objective of dwelling in answering the question is discussed. The chapter provides the general direction of the overall study.

Chapter two discussed the relevant study of literatures: theoretical and summary of some empirical studies are presented. Finally it gives the conceptual framework that is used as guiding frames of the study.

Chapter three discussed the research design, sampling method and techniques, tools to gather the information. It also points to the methods of analysis employed.

Chapter four dealt with the actual analysis and presents the result and discussed the results and presents the key findings in the process.

Chapter five presented the conclusion, summary and recommendations of the study.

CHAPTER TWO

2. Review of Relevant Literatures

2.1 Theoretical Literatures

2.1.2. The Rationale for Industrial Development Policy/Strategy (IDP/S)

Industrial policy is one of the most popular and contentious policy line at the same time (UNCTAD,2018).The contentious nature, and the popularity thereof emanates from the ideological struggles in favor of it or against it(Altenburg,2010, Studwell, 2014). The debate is passionately held in the political north. Usually tend to discredit historical facts that favor the IDS and its successful implementation (Studwell, 2014; Wade 2010) Historical records witnessed that it was Britain that pioneered two of the most popular industrial policy instruments-protectionism and subsidy in the 16th c. Records showed Britain used to tax row wools and imports of clothing to help blossom the export oriented woolen textile industry (Cohen, 2004, Chang, 2007).

The contentious nature of IDP/S as indicated in the introductory part of this study, some questioned the success story of the Asians, creadited the success to the market- oriented policies. yet, others in the same parlanace questioned the success on grounds of a distorted market gave raise to undue conclusion (IMF, 1993 and Krugman,1983) and by the nature and ideological leanings of the Bretton Wood Institutions reports from them are expected to be biased (Acemeglou et al,2005, UNCTAD, 2018). The UNCTAD report further argued to show the ideological nature of the debate which runs regardless of the fact on the ground. The UNCTAD report declares IDP/S is becoming “ubiquitous” stating the fact that over the past 10 years 101 economies, which represent more than 90% of the global GDP, have formal IDS.

As mentioned above, the development of industrial policy dates back to the 16th c England. Taking this historical account in perspective some scholars views industrial policy as the old and new, for instance, (Stephen R.Buzdugan and Heinz Tuselmann, 2016) designates the old

industrial policy as a structuralist view, which was basically shaped by the need to correct the limitations of the market. Whereas the neoclassical view dictates industrial policy may show the high points of government failure (success on grounds of a distorted market gave rise of undue conclusion (IMF, 1993, Krugman, 1983).

What is central to the debate so far rests on what kind of relationship should be thought proper between the government and the market in the economy? At the root of the industrial policy - there were two points that highlight the whole policy spectrum- protection and subsidy (Hausman et al, 2003) The two line of argument lasted to this day state the need to protect the infant industry to a certain stage before opening up to the wider global economy(List,1841;2009;Lin, 2009, UNCTAD, 2017).

Despite the theoretical and ideological divide, if “everybody” is doing on IDP, then what is the point of arguing over the importance of IDP/S? As Paul Krugman has it, the whole point of contention now a day is about targeting (Krugman, 1983). He defines targeting as; “An effort to change the allocation of investment so as to favor particular industries in which the private market is believed to under invest.”

Targeting or not targeting, the most central point of IDS especially rests in the realities of the global trade (UNCTAD,2018). Developing nations’ economy is deeply characterized by exports of primary commodities (Chang, 2007, Stiglitz, 2013). In this situation terms of trade persistently showing a systematic disfavor to the developing world due to the high elasticity of demand for more goods (UNIDO, 2009, Altenburg, 2010). Therefore, the argument protective trade policies and the proactive support of infant industries are the right policy courses for developing nations, even for the very poor ones (Uqubay, 2015, Chang, 2007).

Taking the above briefly discussed assumption for and against IDP/S, this study uses the following combined concept as a functional definition for IDP ***“Any government set of measures to promote or prevent structural change in ways that the government views desirable” (Johnson, 1982). Another definition of the same tune, any type of selective intervention or a government policy that attempts to alter the sectorial structure of production***

toward sectors that are expected to offer better prospects for economic growth that would occur in absence of intervention, i.e. Market equilibrium (WB, 2006).

2.2 IDS, Manufacturing and FDI

The nexus among IDS, manufacturing and FDI are the hottest subjects in the present global economy. While there is a good understanding on their overall contribution to economic development, there is no full consensus on what their impacts are for developing countries which pursued it assiduously (Stephen et al, 2016). As already noted, there is no agreement on what the IDS really is, but discussing it from the vantage points of governments' action, usually give sense (Brautigam et al, 2016). Rather than debating on its definition looking in to its essence by questioning why the manufacturing sector is “selectively” targeted (ibid, 2016). Not only industries, the argument goes over firms and affirmed they too could be targeted over other firms, even against market signals (Johanson, 1982). The Justification for promoting the IDS is thus bringing efficiency and productivity in the targeted industry to enable it to be competitive in the global economy (Lin, 2009; Chang, 2004, Johnson, 1982). In the case of the developing countries, IDS is about supporting the manufacturing sector to shift the economy from its resource based, low productivity state to a more productive status that could transform the structural problem in the macro economy (Altenburg, 2010). A productivity that could lead to an export oriented, competitive industry in a global scale (Lall, 1996).

Manufacturing needs some basic fundamentals that most late industrializers lack (UNIDO, 2009). Following Foreign Direct Investment (FDI), is therefore, largely justified as a route which would bring competitiveness by augmenting demand and economic scale related problems through improved trading experience (Lall, 1996, Massina, 2010). Promoting the manufacturing sector is often considered as the most proven conventional policy route (Amseden, 1989). The difference in this regard is more often observed in how to promote it and with what intensity (Amseden, 1989, 1994). Pushing for industrialization, for many does not go without assuming the role of trade (Smith, 1776). Of course there are some views which points at the possibility of developing manufacturing with very limited trade using a policy of self-sufficiency (autarky), a

policy which entails a nation that is internally focused to solve its own technological problems, assuming a nation has enough market for its industrial outputs (Studwell, 2014, Chang, 2007). However, though vast national market is important, in this era of unprecedented global interdependence autarky is near impossible (Omha, 1988, Stiglitz, 2013, Rodrick, 2004). This is where pushing FDI friendly policy is considered more suitable which includes export promotion. Export is believed to help nations, among other things, to tackle a market size problem, balance of payment challenges, foreign currency problems. Export is believed to have lifted nations' out of low productivity trap, paved the way to a sustainable capital formation; promoted and speeded up technological development (Lall, 1996, Rodrick, 2004).

FDI and aggressive export promotions are pushed hoping to improve the competitive position of a nation by enhancing and leveraging the competitive advantage a nation has (Lall, 1996). We have already discussed the ultimate effect of laying down and pushing Industrial Development Strategy (IPS) is to push competitiveness up internally and externally (Ibid, 1996). Thus, advancing FDI friendly policy implies the need to change the status quo, which could not change without adding external resources given the structural imbalance in import and export (UNIDO, 2009).

FDI should help build local enterprises competitiveness that is on par with the prevailing contexts of the global economy (UNECA, 2016). To be globally relevant FDI should promote innovation (ibid, 2016). Innovation is probably the most important cumulative indicators of a well-managed nexus between FDI and IDS (UNCTAD, 2002). It defines innovation as a process by which firms master and implementing the design and production of goods and services that are new to them, irrespective of whether or not they are new to their competition – domestic or foreign. Having said this, and taking in to consideration an apparent lack of all the key factors: Capital, Technology, Skilled Labor etc. in the developing nations' economy which pushed them to adapt to the demands of the global value chain, and hence adopting FDI friendly economic policies.

The paradox is buying into the popular line of argument does not mean all nations that pursued FDI aggressively would accrue the benefits. FDI has inherent characteristics of putting nations at

risk by making them vulnerable to unpredictable investors' decision (Chang, 2007). They can withdraw from the host country whenever they find the factors that were cheap no longer cheap (Amsden, 1989). More often FDI is discussed in the form of its benefit; its defining essence is taken for granted. Anyhow, for this study the researcher finds it proper to have a functional definition what FDI is. The IMF gives the concept the following definitions. ***“FDI is an investment made to acquire a lasting interest in or effective control over an enterprise operating outside of the economy of the investor”*** (IMF, 1993).

The IDS, especially industrial targeting is promoted to positively impact the resource allocation in a manner that benefits the industry under consideration and the overall economy (WB, 2006). Apart from the vulnerability of nations due to the inherent nature of FDI's, success from the aggressive promotion of it is dependent on the host countries characteristics (Ibid, 1996). Some also noted FDI might have different effects on growth in nations that follows aggressive export promotion or import substituting policies (Blomstrom et al, 1992). In raising country characteristics effect on “absorption of FDI benefits” the above mentioned authors emphasized FDI has a significant effect on high income developing countries, suggesting that countries have to pass a certain income threshold in order to benefit from FDI. Yet others argued singular factors like income, per capital GDP growth have immense effects better than FDI (Bozenstein et al, 1998) have suggested political economy, policy learning (benchmarking) may have a far reaching impact than FDI's benefit in blanket.

Scholars, who opposed to the aggressive promotion of IDS, recognized the reasons forwarded by governments or scholars who are in favor of IDS. Targeted IDS is promoted in the hope of achieving high value added per worker, linkage to the rest of the economy, and the prospect of future international competitiveness (Krugman, 1983). Multinational enterprises (MNE's) that take part in a poor countries economy are credited for adopting different mode of organization of their production functions and operational activities, which some call it the 'global factory' for its standardizing effect (UNIDO,2009). To benefit from the aforementioned positives, nations more often advised to use from FDI's “transforming” features of integrating to the global economy

(ibid,2009). Others, noting the FDI's generally recognized positive effect, they cautioned all FDI's should not be pursued because they are FDI's.

Poor countries economic development is strongly rooted in the nation's endowment structure (Lin, 2009). If economic development largely depends on the endowment factors, following on the industrial structure in terms of skills, capital and natural resources, the government role is to make sure endogenous process of upgrading (Ibid, 2009, Amsden, 1989, Johanson, 1982). Reiterating FDI as unavoidable part of economic development, one distinguishing characteristics of the new industrial policy is; it's open orientation towards FDI. Open to harness its potential to build capacity, promote high value added (HVA) products, and capture the gains of high level global value chains (GVCs) (Chang, 1994). In similar note, poor nations are advised to work harder on the `right` path, to avoid being trapped in the low end of the value chain by the entrenchment of low value added activities associated with low quality FDIs (Stephen et al, 2016) in order to attract high value added (HVA) investment, countries should tailor their effort toward a well-defined and deliberate industrial policy (ibid, 2016). It does not end here; they should also work to upgrade the existing FDIs effort to a more HVA operation that integrate the old and the new through a new set of IDP (UNCTAD,2018) Generally, IDS/P is followed by many nations for various reasons. The World Bank (WB) discussed three prevailing arguments mentioned to pursue the IDS.

1st The presence of knowledge spillovers and the dynamic economic scale as a result of it

2nd To tackle failures that arise from coordination failure.

3rd Informational externalities. (Learning by doing that would help in building dynamic economies of scale and attaining the efficiency level of the foreign firm.

2.3 Political Economy and Industrial Policy Benchmarking

Development is deeply a political exercise. (Pirie, 2008).An IDS as a government initiative is political as it is economical. In the ever changing order in the global political economy societies

need ways on how to creatively figure out and regulate themselves, which is the essence of public policy (Birkland,2001) any government's action is basically determined by the realities in its political economy (Cochron et al, 2011). The action that emanate from the struggle in the government system, is therefore, determines who gets what (ibid,2011, R.Dye,2007) they add another dimension to public policy saying, public policy, it is not only about what to do, it is equally what not to do. IDS in this sense is about making hard choices (Weis, 2015). Especially in poor countries, it is about changing a weak industrial structure, which is basically resource based (ibid, 2015).Weis has also emphasized the experience in most of the poorer countries economic policy have shown a characteristics of top-down planning, because of the lack of a strong indigenous class of domestic capitalist, hence, "it is not surprising nor wrong that Africa's political and business leaders spring from the same elite."

The elite composition that is the result of the political economy, or at times the political economy itself is the result of the relationship dynamism of the elites (Cohen, 2012). IDS is "potentially very powerful" but is should be created to the context or institutional arrangements of a country (Rodrik, 2007). Rodrick concludes, IDS should be sensitive to the "binding constraints" which means, to a nations specific condition. The implication here is, IDS could be successful or not for host of reasons. Chief among them is the differences in ideologies of the policy makers. Adding to the points discussed above promoting industrialization and having IDS/P is an endogenous outcome, interests and institutions should be aligned to the national context, otherwise it will surely fail (Robinson, 2009).

The distribution of political power in a society is endogenous (Acemoglu and Robinson, 2006). According to these authors there are two components of power that could be accounted for the policy making process. First all types of power that originates from the political institutions in the society (de jure); Second, a power originates from group actions from the use or misuse of existing political institutions (De facto political power) (ibid,2006). In this parlance IDS is the result of these power interaction. The question here is what kind of political equilibrium is propitious to well-functioning IDS?

Political power, public policy, IDS in a given nation are endogenous, or at least should be as discussed above. This endogenous process could not be discussed without taking in to consideration the international political economy (IPE). IPE is a perspective that emphasizes the interdependence of the international system. (Cohn, 2016). We are living in an increasingly “mutually dependent” world, with reciprocal relationship (transaction) that is not necessarily symmetrical (Ibid, 2012). Cohn discusses three core perspectives in IPE: The liberal, the nationalist, and the critical perspectives. Of these perspectives, the liberal one has a strong hold on the way we see and pursue FDI. The mainstream liberal view, according to Cohn, views international political economy as an optimizer of economic interactions for maximum economic efficiency.

Proponents of IDP/S reiterate the neo-classical economic model could not offer much insight (Seguino, 2014). Though it advocates (the neo-classical model) the virtue of the existing IPE and globalization, it has no real theory of structural change and productivity growth (Amsden, 1989). Whereas the Washington Consensus views industrial targeting or policies as distortionary influence that destabilize the market (Krugman, 1983). On the other hand, proponents of the endogenous growth theory, who views the role of technology as key for late industrializers in their march to catch-up, posits technological breakthrough is not the result of miracle exogenous to the factors of production. For them as labor and capital, technological knowledge is endogenous (Stiglitz, 2013). Other way put technological progress is dependent on investment on science, education and on R. & D. (Amsden, 1989; Cohn, 2010, Wade, 2010, Lin, 2009). The question that follows from this convergence on endogenous industrialization is, as poor nations’ invest less on the above mentioned factors of industrialization, and playing within the current IPE, is catching up possible? For dependency theorist like Presich, simply, the answer is no. They said, the liberal modernists do not allow it. Yet, others like (Wade, 2010). If the government build its capacity to manage FDI strategically, it is possible. Another question still emerges here, how can poor nations find the balance between FDI and the capacity of domestic firms? Some of the answers lay on effective benchmarking.

2.4 Policy Learning (Benchmarking)

That debate on IDS/P evolves centering on the government's role in industrialization. Some advocates a 'facilitating state' for an optimal use of comparative advantage (Lin, 2009). He holds the view about the state's behavior and the existing ability to exploit a country's comparative advantage today, not on the factor of production it may get some day (Chang, 1994) agrees with the use of existing comparative advantage and furthered the argument, saying a state should also focus on creating and developing other comparative advantages.

Empirical evidences of success in IDS have been the grounding logic for most of the underdeveloped world (Altenburg, 2010). Success stories of catching up of nations like South Korean, Taiwan, Singapore, Malaysia, Brazil, and Chile have inspired many of poor countries (Altenburg, 2010, Stud well, 2014, Amsden, 1989). The inspiration is palpable in most of LDCs, however, the quality and the outcome of IDS's in low and lower middle income countries is much less known (Altenburg 2010, Wade, 2010). Altenburg has also mentioned Ethiopian leaders' who have crafted the IDS were influenced by the late comer's achievement like that of Korea and Taiwan, quoting the instructional materials for EPRDFs cadres to justify his claim. He discussed capitalist enterprises and the necessity of having an export-led industrialization is the lessons drawn from the said inspiration.

Those governments who are used as examples for successful IDS are popularly known as 'Developmental States' (Geda, 2011). The basic features of developmental state formally conceptualized and empirically concretized by Johnson (1982). The developmental states also known as active states do share the following features drawn from newly industrialized countries (NICs). The features are, presence of development obsessed political elite, knowing what to do and capable of doing it, mobilizing society around hegemonic purpose, government hegemony in decision making, channeling development rent from less productive to a more developmental venture, resource mobilization (Johnson, 1982, Evans,1995).

Wade (2010) added what he calls organizational features that should be in place for a developmental state to function well: an even balance between the state and the business, a

public service mindset among state officials, delivery of patronage resources separately from the economic bureaucracy, the capability of pushing back against the shrinking latitude for industrial instruments.

There are scholars who view such a development project as a nation building through market (Weis, 2015). He emphasized state and market building is complementary in nature, which resulted in mutually supportive institutions: A state that seeks legitimacy from its developmental interventions, and economic elite that advances a particular vision of the Ethiopian state (ibid, 2015). One unique feature of a developmental state is, its ability to organize society under overarching hegemonic purpose, like moving out, releasing people from the vicious circle of poverty and low productivity (MoFEC, 2015). In Ethiopia's modern history there are ample anecdotes of overzealous leaders who tried hard to 'borrow' knowledge and technology to develop, where there was no hint of 'a developmental state' as a concept but failed to succeeded (Zeweda, 2008). However, borrowing was never been easy elsewhere (Amsden, 1989) she asserted, long term development and growth are significantly dependent on the acquisitions of knowledge based assets. The logic behind the challenges of successful borrowing is the need to have manufacturing experience, picking the right technological knowledge and applying it (Ibid, 1989). Successful industrialization whatever the political orientation might be, it is about enhancing labor productivity through specialization (Felipe, 2018). He backed this judgment citing Adam Smith. Adam Smith recognized three ways in which labour productivity increases through specialization. 1st, through the dexterity of labour (learning by doing). 2nd, through the time saved due to specialization. 3rd, through the greater scope of capital accumulation (breaking complex processes, which raises productivity.)

If the classical economic theories do not shed much insight on how to move out from poverty, economic history does (Studewell, 2014). The inspiration drawn from developmental states rests on this point of learning from forerunners, not from what they preach but from what they applied and benefited from (Stiglitz et al., 2013, Chang, 2007). Viewing IDS within the globalization context goes beyond industrial development and structural transformation (UNCTAD, 2018). Rather, they include integration into Global Value Chain (GVC). The development of knowledge

economy, and building up of sectors linked with sustainable development goals, and even more, setting the economy in competitive positioning for the New Industrialized Revolution (NIR) (Ibid, 2018). Having knowledge based assets, and hence long term development and growth is about getting some key ingredients right: export capability, foreign currency, experience that make firms competitive and enhanced productivity. Getting all this right depends on learning by doing (Lin, 2009, Chang, 1994; 2007).

The policy learning, apart from getting understanding on one's nation position in the prevailing IPE, the learning does also concern policy makers to look into success factors. Data drawn from successful experiences of Asian and African nations who have implemented economic transformation agendas, have 4 characteristics: established industrialization and economic transformation as a nation building project, leadership and coordination within the government, effective mechanisms for public-private sector coordination, explicit experimentation, feedback and correction (ATF, 2018).

2.5 IDS, Actors and the Bureaucracy

According to ATF's assessments discussed above nation building project, coordination, public-private partnership and explicit experimentation and feedback are the success factors in economic transformation. The proposition of looking at IDS as a nation building project entails the harmony among key actors (Weis, 2015) perceived the national project as a result of the government, the party and the private sector, which he said in African context emerged from relatively the same pool to affect the political economy and the policy thereby.

Measuring the success of the above stated factors is hard. Much of the insight on this regard came from empirical evidences. "No rigorous evaluation of core institutions programs is available." (Altenburg, 2010). What compounded the problem are the lack of third party reports as well as the lack of professional monitoring, evaluation and project management knowledge and skills. One thing, however stands out, the success of an IDS is ultimately depends on the state's vision for the policy, the will, the capacity to enforce the policy (Meisel and Cramer, 2008)

The lessons drawn from late comers bureaucratic orientations reaffirmed the need for an aligned interest of the private sector with the state vision, that could be enacted by a bureaucracy with a service mindset (Studwell, 2014, Wade 2010, Weis, 2015, Housman et al., 2007). A bureaucratic orientation is shaped by the ‘binding constraint’ of nations, which is the specific context, mostly hard to imitate (Housman et al., 2007). The Post World War II Korea and Japan’s administrative experience where dominated by ‘New Dealers’ influenced by Americans, whose role were primarily ‘technocratic’. Japan and Korean law, thus have been broad worded statutes that delegate considerable authority to bureaucrats (Ginsburg,1999).

Records also showed they have legal but primarily extra-legal tools that help them ensure their influence in shaping public policy and controlling its impact, in which the ‘shaping of public policy’ aspect is euphemistically known as administrative guidance (Lall, 1996, Studwell, 2014, Wade, 2010, Lin, 2009). This, so called administrative guidance, is “a form of pressure to modify behaviors” of actors, especially the private sector (Amsden, 1989, Seguino, 2014, Chang, 1994).

The bureaucracy in developmental state follows the guiding political economy (Acemoglu and Robinson, 2006). As discussed earlier, the actions that impacted public policy arises from the use of the political power. Decision that come from the political institutions (de jure) and the one which comes from ‘the group’s collective action’ to solve its problem. The ‘groups collective action’ is what the bureaucracy set out to ‘guide’ in enforcing the IDS. This capability is in turn highly influenced by the level of alignment the bureaucracy have with the core elite (Chang, 2007, Johnson, 1982).

One view that divides proponents of IDS and those who are against it is, the way they see the bureaucracy. Those who favor minimum government tend to address the bureaucracy from economic point of view, often efficiency prevails on the debate (Fredman, 1962, Krugman, 1983). On the other block, those who favors the promotion of the IDS, adhered to the market’s pervasive failure and the need to rectify it through government initiatives, apart from specific economic measures to support a given industry or firm, it should take a coordination role to have

an optimum result from the policy (Wade, 1990, 2010, Lin, 2009, Amsden, 1989, 94 Stiglitz et al, 2013).

International institutions like the World Bank added the good governance issue to the efficiency argument since the 90's (Stiglitz, 2013, Wade, 2010) without acknowledging the need for government or more narrowly the bureaucracy's role in economic coordination, which many of the researchers of developmental state agreed on the bureaucracy's active role evidenced in the success of newly industrialized countries (NICs).

Early stage industrialization is characterized by not only the promise it has, but also the structural limits it has to face (Tefera et al., 2018). At such stage a nation's economy is composed of small private firms, struggling with weak inter-organization structure in a fragmented value chain (Ibid, 2018). Small firms' limited capacity could not help in transforming the economy if they are completely left to the market. (Kenny, 1998, Wang, 1995). Not only because of their size but also their capacity to innovate at the early stage of industrialization is low (Lee, 2013, Evans, 1995, Lin, 2009, 2014). This limited capability is another line of argument in supporting and building bureaucratic capability to lead the economy. (Amsden, 1989, Wade, 1990). What an effective IDS is expected to create is an effective policy network (Tefera,et al, 2018). Policy network is a concept which explains a set of relatively stable relationships which are non-hierarchical and interdependent (Cohn, 2012). Policy networks facilitate linkages around a hegemonic agenda among actors. Government agencies, the legislative, trade associations and broader social groups (Evans, 1995, Lee, 2013, Johnson, 1982). A working policy network facilitated by a viable IDS is minimizing agency cost (Tekin, 2016, Chool Ha and Kong, 2011). From the proponents perspective convincing the bureaucracy, selling the 'hegemonic agenda' of the IDS and making them internalize the policy option is very instrumental in implementing the policy (Ginsburg, 1999).

The resurgence of the IDS has come from the success of the East Asian states. One recurring variable recorded by most scholars is the autonomy of the state and the bureaucracy is a necessary condition for a long term development (Lin 2009, Amesden, 1989, Johnson, 1982, Tekin, 2016). The Korean success story is considered supportive of the case in point (Chool Ha

and Kong, 2011, Wade, 2010, Amsden, 1989, Johnson, 1982) discussed the bureaucracy's capability. They described the Korean bureaucracy's characteristics as unitary and cohesive which helped it to command, manipulate, and discipline the private sector, which is generally considered as key traits of the bureaucracy in effective developmental state.

The ability of the bureaucracy to command and discipline the private sector, and bringing together the other actors on board is the mark of an able bureaucracy of a 'facilitating state' (Stiglitz et al., 2013, Evans, 1995, Amsden, 1989, 1994, Chang, 1994). A facilitating state identifies and selects industries based on the comparative advantage of the nation, providing incentives for first movers and coordinate private firms to form clusters that could put the economy in a winning position (Stiglitz et al., 2013, Cramer and Meisel, 2008, Amsden, 1989, 1994).

Forming clusters based on the competitive advantage of a nation apart from the autonomy of the bureaucracy and the state, it also needs to have an embedded autonomy (Evans, 1995). Embedded autonomy according to Evans, is "a concrete set of social ties that binds the state to the society and provides institutionalized channels for continual negotiation and renegotiation of goals and policies."

Evans 'embedded autonomy' is credited for Korea's IDS success and the institutional configuration that made it happen (Cramer and Meisel, 2008). The embeddedness helped to put actors on the same page on very key industries that were believed to transform the economy (Studwell, 2014, Amsden, 1989, Johnson, 1982, Wade, 2010). The bureaucratic autonomy and embeddedness helped Korea to combine the institution and market building (Wade, 2010, Chang, 2007). Wade described East Asian IDPs from two perspectives: 1st leading the market, a perspective which views the IDS from the active role the government has played on investment decisions that the private sector would not make, and; 2nd, following the market, a perspective which views the state supporting the private sectors 'bet' in a given industry or product.

Most of the policy assessments of East or North Asian states policy choices followed what could be placed in both ways (Studwell, 2014). Doing so needed the bureaucracy to act actively,

efficiently in commanding, manipulating and disciplining the private sector according to the overarching developmental objectives of the state. Even though not all developmental states are the same in their IDS orientation they all tried to command, manipulate, and discipline to a degree of success according to their bureaucratic capabilities along with other institutional elements (Chang, 1994, Amsden, 1989, Jones and Sakong, 1980). The bureaucratic capability in this context is beyond the purely technical (Chool Ha and Kang, 2011). These authors who had studied the Korean bureaucracy focusing on ministry of commerce and industry (MCI) highlighted the achievement of the leadership in creating a capable bureaucracy with loyalists'. They found out, not only in Korea, but also on the rest of East Asian nations the rational aspect of the bureaucracy was not enough to explain the dynamic relationship between the state and the bureaucracy. Mostly the bureaucracy were efficient, however, controversially dependent on the political leadership with a distinct top-down approach.

Creating a capable bureaucracy and the advance in sustainable growth never fail to grab the attentions of many researcher, for instance, (Evans, 1995, Evans, Skopol, 1985, Gerschenkran, 1962) confirmed the direct correlation. What has yet become controversial is the inconsistent, leader dependent, as some described it whim driven bureaucracy that willfully compromised the impersonal, rational role of the bureaucracy (Weis, 2015). In the embedded autonomy of Evans, the need for creating 'institutionalized channels' for accommodating interests implied a strong and dynamic relationship among key actors sticking on the nationally defined goals (Evans, 1995, Johnson, 1982, Amsden, 1989). In this regard, the aforementioned study conducted by Chool et al a close tie among the state, the loyal bureaucracy and the business leaders is the core institutional configuration credited for the success registered in transforming the Korean economy.

Institutionalizing the bureaucracy is about creating rule based, impersonally efficient service providers (Weber, 1978). The 'whim' and merit blended bureaucracy has been unsuitable for generalization to a degree of creating a theory that could be benchmarked as applicable prototype (Cramer and Meisel, 2008). Such configuration with key features as key leader dependent, close tie with business resulted in blurring of the public and the private domain, for instance, (Tekin,

2016) found out such is the case in Turkey and Korea. Lacking the rationality, the impartiality despite the capability of delivery compromised the autonomy and accountability of the public bureaucracy; rendering it to be 'patrimonial' subjected to unholy relationship that tried to create and lead a market that is open 'to be lead or followed' by the bureaucracy.

This institutional arrangement, what Wade (2010) had described as 'leading and following' types of implementing the IDS; is about using incentives to support a swift implementation. Amsden's (1989) reciprocal relationship has also discussed the importance of 'disciplining'. To deserve government incentives firms' must be subjected to a measurable result (Amsden, 1989, Chang, 1994, Cramer and Faeisel, 2008). Result was the validation for the institutional configuration. Such leader dependent politically charged relationship is suspected of being massively plagued by rent seeking behavior, institutionalized favor exchange-crony capitalism (Weis, 2015, Cramer and Meisel, 2008). Those who see the bureaucratic relationship based on historical contexts, criticized scholars who had been leveling their critics based on the Weberian line of bounded rationality. The rational-impersonal logic tends to view from the technical, functional aspects usually failed to look at the structural and historical conditions at takeoff (Chool Ha and Kang, 2011).

IDS in the final analysis is the function of the institutional arrangements that underscore its performances (Stiglitz, 2006, Lin, 2009, Cramer and Meisel, 2008, Evans, 1995, Wade, 1990, 2010, Studwell, 2014, Johnson, 1982). Almost all who have studied the Asian success stories looked into the government intervention and the coordination effect thereof. The IDS in those countries was coordinated through government agencies, among those that have been frequently cited as the best example is the Japanese Ministry of Industry and Trade (MIIT), Economic Planning council and the Industrial Development Bureau (IDB) of Thailand, National Resource Commission (NRC) of China, Economic Planning Board (EPB), and Ministry of Industry and Commerce (MIC) of Korea, Commissariat Au Plan (France) and some other more narrowly focused sectoral focal points, like that of, the auto and aircraft sector in Brazil, Coffee sector in Colombia, Agro-processing sector initiatives in Chile are among list of success stories in IDS-institutional arrangement which inspired many studies and pragmatic policy benchmarking that

inspired politicians and policy professionals. Not only inspiring but also advised by key scholars over the past few decades (Stiglitz et al., 2013, Amsden, 1989, 2001, Studwell, 2014, Johnson, 1982, Chool Ha and Kang, 2011).

2.6 IDS, FDI and the Positive Externalities

Industrial Development Strategy (IDS) is about manufacturing centered economic development and transformation thereof (UNCTAD, 2017). The transformation is about moving out of the low productivity trap that heavily agricultural output dependent nations aspire to do (Studwell, 2014, Chang, 1994, ADB, 2017). Fredrich List (1841) wrote *“a nation which exchanges agricultural products for foreign manufactured goods is like an individual in one arm, which is supported by a foreign arm.”* Following this argument list recommended one of the most noted catch up advice, Germany and USA, could only have a successful catch-up if they effectively provide for their infant industries (Cohn, 2012). This advice has continued to guide the fundamentals of IDS strategies wherever they are applied despite the emphasis on export, import substitution, or the struggle to strike a working balance between the two pillars (Hausman, Rodrik, Velasco, 2007).

In the discussion we have on government agencies and the IDS implementation, the aims were in most cases beyond the sectors (Johnson, 1982, Wade, 2001; 2010, Amsden, 1989). Johnson discussed, Japan had a government agency as early as 1930's to 'rationalize' different manufacturing sectors through mergers after benchmarking the German's experience. Koreans followed to the tune, the famous quote from the then Korean leader General park “The Korean state would do the planning while the private sector would lead the investment” summed up the whole intent of their IDS (Studwell, 2014). It has also implied what Wade had described as the two forms of the IDSs that he had generalized from the East Asian experiences; the leader and follower IDSs where the governments wish to lead - lead, where it finds it suitable to follow - follow the business if it supports the nation's plan (Wade, 2010).

In today's global order struggling to attract FDI is a norm. Adopting IDS that put tracking FDI as a policy goal is also getting ubiquitous (UNCTAD, 2016: 17). IDS use to be pursued for key production factors like capital. Now the governments intervention to stimulate the manufacturing

growth is not only to get the critical resources important to industrial kick off; rather, the benefits enjoyed by the forerunners has created a cliff too wide to be allowed to enjoy a ‘level playing field’ (Cramer and Meisel, 2008, Amsden, 1989, Wade, 2010, Stiglitz et al., 2013).

The need to build clusters is to close the gap in know-how that resulted in disparity in productivity between the forerunners and those who struggle to catch-up (Stiglitz et al., 2013). They call this drive a new rationale for pursuing IDS. Deliberately pursuing technological diffusion and industrial upgrading, which is defined as a policy of fostering constant learning, sharing knowledge to the largest number of agents (Lin, 2009, Stiglitz et al., 2013, Hausman et al., 2007) knowledge in this line of argument is a public good, which implies an active role for government because market anywhere is not efficient in producing and distributing public goods (Chang, 1994, Stiglitz et al., 2013, Amsden, 1989, 1994, Cramer and Meisel, 2008).

Promoting technology and knowledge diffusion as a public good upholds the core arguments of industrialization seeking knowledge spillovers and the resultant dynamic scale economy; the possible mitigation of coordination failures; and the informational externalities (WB, 2006). Other way put it implies the inherent nature of IP. Industrial policies can ‘tilt’ the playing field toward sectors or technologies with positive spillovers (Ibid, 2006).

FDI is commonly defined as a long lasting investment by a foreign investment by a foreign investor, claiming at least 10% of ordinary shares on voting power in the management of the company that resides in the host country.” (IMF, 1993, OECD, 1996). Others yet prefer to emphasis what is beyond capital and management control. For instance, De Maggio and Machado (2005) defines FDI is indeed a capital inflow MNCs bring in the form of sophisticated new technology, managerial skills and production design. Even though they do not deny the importance of the resources attached with FDI, some scholars view technology transfer is key and it is also the measure of IDS success (Curvyers, 2008, Giroud, 2013) further emphasized this fact by reiterating MNCs linkage with the local firms. Linkage in this sense is defined as “the direct relationship established by firms in complementary activities which are external to pure market transaction (Ibid, 2013). Attracting all these and producing outcome is closely associated with deterring negative spillovers (Stiglitz, 2000). These negative externalities appear in the form

of MNCs extreme domination (Gerschenberg, 1987, Aitken and Harrison, 1999). In most of the developing nations where negative externalities happened, it happened in the form of taking away demand from local competitors and driving them out in the process from the market.

Many literatures written in the areas of FDI and industrial policy tend to view positive spillovers from two perspectives: Horizontal (intra-industry), Vertical (inter-industry) spillovers (Suyanto and Bloch, 2009, Balnankestigin, 2012). Horizontal spillovers occur when MNCs and local firms operate within the same industry, while vertical spillover occurs when MNCs transfer technology to local firms via backward and forward linkages (OECD, 1996).

The horizontal (intra-industry) spillovers affect a given industry through four channels from MNCs affiliate to local firms. These channels are: the demonstration effects (through imitation, innovation, reverse engineering), labor turnover (mobility), a concept that entails the possibility of a local firm benefiting from cheap transfer by hiring an ex-employee of MNCs; the competition effect (a competitive pressure assumed to shape the behavior of a local firm), geographical proximity (local firms benefit more from transfers if they are geographically closer to MNCs (Arrow, 1971, Panomareva, 2000, Aitken and Harrison, 1999, UNCTAD, 2001, Liang, 2008, Glass and Saggi, 2002).

From the theoretical vantage point the possible linkage effects garners more support than disagreement. Rather the level of the benefit that countries could accrue is the bone of contention. Good number of scholars, however, argued in two distinct points. A nation should have the minimum absorptive capacity in its local firms (Lall, 1996, Crespo and Fontona, 2007), and the need to embrace the risk of 'Learning by Doing' (Gorg, Greenway, 2004, Amsden, 1989, Wade, 1991, Steglitz et al., 2013). Absorptive capacity entails transfer could only happen successfully where there is a minimum capacity to take it (Amsden, 1989, Wade, 2010). When the human capital, the physical infrastructure, Research and Development (R & D) are at low level, the absorptive capacity for high tech would be low, which implies lower quality of knowledge and technology diffusion (Greenway, 2004, Lall, 1996, Steglitz et al., 2013, Seguinto, 2010, Amsden, 1989).

2.8 IDS and IPS (Industrial Policy Instruments)

The effectiveness of an industrial development strategy is highly contingent upon the Industrial Policy Instruments (IPS) that is put in effect to implement the IDS. (UNCTAD,2018). It is even more important considering it in the developmental state policy space and the political economy context (Ibid, 2018, Kumar, Pradhan, 2005). It has been increasingly evident from records of empirical insights from the successful developmental states, investment policies and promotion strategies are being designed on the bases of dynamic comparative advantages (UNCTAD, 2002). The same source argued, aligning investment policies, promotion strategies that encompass policy instruments, like that of fiscal and non-fiscal incentives need to sort out two key strategic tasks: 1st, mapping out the core competencies, assessing the strength, weakness of the economy so as to have the picture what opportunities are available at the national, local, and at firm level; second, identifying sectors or clusters with the competitive advantage or suitable enough to develop a competitive advantage.

Mapping out competencies at a national level, and building on them to attract FDI in order to exploit opportunities that are already existing or trying to create a competitive advantage that does not exist at present need an articulated policy instruments and the successful implementation of them (Loewendhal et al., 2001). Especially, Loewendhal stressed the PIs framework importance in making FDI promotions successful that are worth mentioning here. He discussed frameworks of policy instruments (PIs) should cover four major areas: strategy and organization, lead generation, facilitation and investment services.

As we have been discussing on the role of the bureaucracy in operationalizing the IDS the importance of strategy and organization could not be overstated (Loewendhal,2001) reiterated the component parts of strategy and organization to make industrial development policies to bear fruit; these components are, setting the national policy context (institutional coordination), setting objectives, deciding on the structure for operating the industrial promotion strategies, implementing a competitive positioning strategy (effective marketing), and executing a sector targeting strategy.

Numbers of studies that look the role of the government in promoting industrialization seldom disagree with the importance of having a relevant industrial policy and instruments to implement them. Rather, the difference lies on what constitute a good framework and agreed on it; as they do in the industrial policy no two frameworks could be the same (Hartog, 2010, Fatihi and Ahmed, 2010). Industrial policy is about targeting, targeting by itself entails doing something for the targeted sector, industry or firm as it was discussed earlier that targeting in most case involves the privileges of having a certain incentives. Incentives differs depending on national contexts, however there are often used instruments like protection, subsidy, credit, tax exemption etc... the debate is not on the form, rather on the results of the incentives. Many scholars who followed and studied developmental states argue incentives without discipline are guns without bullet (Studewell, 2014, Amsden, 1989, Wade, 1991, Stieglitz et al., 2013).

Providing incentives and making the expected result clear is the essence of disciplining (Studewell, 2014). More aptly, Amsden (1989) has given it one of the most enduring definitions in the field's literature, saying "Disciplining is a policy of continually testing and benchmarking domestic manufacturers' that are given protection and subsidy." It is about making the collaboration between big business and the government working, while building accountability for results that are aligned with national objectives (Seguino, 2010, Lin, 2009, Amsden, 1989, Wade, 1991, 2010).

Generally, industrial policy and the promotion of FDI in line with the policy have continued to be a contentious subject. Some scholars took it as an exercise of 'picking winners' at the expense of other industries or firms (Krugman, 1983); Others considered the debate itself superficial, as every government exercising it, what does the argument serve? (UNCTAD, 2016), yet still other viewed targeting as an exercise, not of picking winners, rather it is about 'weeding out' failures and rewarding successes that are scalable, in the process 'culling firms that did not measure up' using policy instruments at the disposal of the state (Studewell, 2014, Amsden, 1989, Lin, 2009, Chang, 1994). However, the researcher of this study would like to argue some variables stood out beyond the dividing lines. The nexus among industrial policy, FDI and policy institutions have the strongest impact on the success of generating positive externalities from the quality

ensured by the interplay of them, as they constitute the components of a robust system in IDS implementation.

Generally, the debate is still evolving. Learning will continue to affect the direction of industrial policy. The following two tables may help readers to have a summed up picture of the debates development, From the table one also could deduce despite the debate over ideological lines, the practical aspects of the policy development is not as simplistically divided as proponents of the two sides (market and government) would like us believe; rather, it does entail the coexistence of the two lead actors.

2.8 Evolution in Industrial Policies and Themes

Key features	Until 1970's	1980's-1990's
Themes	- Industrialization and structural transformation	- Stabilization - Liberalization - Laissez faire
Policy goals	- Creating markets - Diversification	- Market-led modernization
Key elements 2.8.1 Modern Industrial Policies	- Import substitutions - Infant industry protection - Sector development - Gradual and selective opening to competitive trade	- Limited government involvement - More horizontal policies - FDI opening - Exposure to competition
Policy environment	- High political legitimacy for national development strategies	- Low political legitimacy for interventionist development strategies - Limitations to policy space through international commitments.

Source: UNCTAD, 2018

		Recent/Emerging themes
	Features Key /Themes	- NIR - Sustainable development
Policy goals	- Specialization and increased productivity	- Modern industrial ecosystem development
Key elements	- Targeted strategies in open economies - Enabling business environment - Digital development (IT) and ICT diffusion - Participation in global production networks - FDI promotion combined with protection of strategic industries - SME support - Skill and development	- Technical capabilities development - Innovation in production (operational technologies) - Learning economy - SDG sector development - Public private knowledge/ technology development institutions - Acquisition of foreign technology - Entrepreneurship development
Policy environment	- Regained legitimacy for national development strategies - Moderate policy space in selected areas	- More policy space in new fields - More emphasis on inclusiveness.

Source: UNCTAD, 2018

2.9 Review of Relevant Empirical Literatures

Author/s and Period	Title	Methods used	Key results
Maurice Kugun (2004)	Externalities from FDI: the sectoral pattern of spillovers estimation framework to measure technology and linkage externalities from FDI		Optimized MNCs work to minimize profit lose due to linkage of technological information to competitors, host country firms within the MNCs sector experience limited gains ensuring FDI.
	Foreign direct investment, externalities and geography an analysis of the effects of geographical proximity on the externalities from FDI in Mexican manufacturing industries	Instrumental variable estimation function	Geographic proximity does influence externalities. The level of geographic concentration enhances the occurrence of positive externalities within an industry.
Nagauesh Kumar, Jaya Prakash Pradhan (2005)	FDI, externalities and economic growth in developing countries: some empirical explorations		FDI contribute to growth more than proportionately compared to Domestic Investments in the host country.
Kersan Skabic, Jurai Dobrilla (2013)	Institutional development as a determinant of FDI attractiveness in South East Europe		South Eastern European countries have gone through process of transition were foreign capital has palyed important role. Weak institutional framework resulted in unsatisfactory amount of investment in flow.
Ali Fathi A. Ahmed (2011)	Essays on FDI institutions and economic growth		Host country need to achieve a minimum level of institutional quality in order to able to benefit from the positive externalities offered by FDI.
Christine Michelsan (2006)	FDI and industrialization, why technology transfer and new industrial structure may accelerate economic development		Technology transfer depends on the quality of goods and service bought locally and hence employment generated in upstream industries. Positive spillover effects of industrial development are dependent on government strategies.
Bonnie G. Buchanan, Quan V. Le, Meenakshi Rishi (2012)	FDI and some institutional quality: some empirical evidence	Panel Data from 164 countries (1996-2006	Examined, institutional qualities on FDI levels and volatility. Result-good institutional qualities have positive and significant effect. If there are institutional determinants of FDI volatility and if that volatility is associated with lower economic growth macroeconomic corrections are in effective without equal emphasis on institutions.
Fillip Kokotovic, Peter Kurecic (2016)	The MINT Countries: a Regression Analysis of Selected Economic Features	Data from the countries analyzed using Ordinary Least Square (OLS) regression.	FDI does not seem to have a statistically significant impact on their development.
African Governance and Development Institution (2014)	Determinants of FDI in Fast Growing Economies: A Study of BRICS and MINT	Panel analysis of 11 years.	Market size, infrastructure availability and trade openness are most significant. Availability of natural resources and institutional quality are in significant.
Julian Den Hartog (2009)	The Institutional Framework and FDI	Estimation and moderation models using data from 82	Examines formal and informal institutions measuring public sentiments toward nationalism, liberalism and work related attitude as a proxies for informal

Author/s and Period	Title	Methods used	Key results
		countries.	institution-result, all play significantly positive role. The quality of formal institution has an effect on the informal institutions.
Aljaz Kuncic, et al (2014)	FDI and institutions: Formal and Informal Institutions	Panel data, using gravity specification from 34 organizations (1990-2010) to measure the effects of the qualities of legal, political, and economic institutions.	Legal, political institutions are important determinates of FDI The political and legal institutions distance is both significant obstacles to FDI, and public opinions matter.
Dinah Ngui, Jacobo Chege, Peter Kimuyu (2019)	Kenyan Industrial Development: Policies, Performances, and Prospects		The dominance of small firms gets in the way of industrial development. Academic rather than vocational trainings. Neither obvious demand for new beneficial use of researches.
Louis N. Chete, John O. Adeoti, Foluso M. Adeyinka, Femioladago Ogundele (2019)	Industrial Policy in Nigeria: Opportunities and Challenges in a Resource Rich Country.		Efforts at improving performance have failed. Limited infrastructure corruption and threats on national security weakened industrial policy implementation. Diversifying, stimulating and manufacturing and linking it to agriculture and service sectors is imperative.
Gui-Diby, Renard M. F. (2015)	Foreign Direct Investment Inflows and the Industrialization of Africa	Applied GLS to study the relation between industrialization and FDI in 49 countries during 1980-2009	FDI have no significant impact on the level of industrialization contrary to the market size, the international trade and the financial sector of the host country.
Cleeve E., Debrah Y., Yiheyis Z. (2015)	Human Capital and FDI Inflow: An Assessment of the African Case	Panel data from 35 SSA countries (1980-2012) to study the interaction between FDI and human capital.	There is a positive relation between FDI and human capital market size, natural endowment, infrastructure and economic crisis are determinants factors of FDI.
Kinda T. (2010)	Investment Climate and FDI in Developing Countries: Firm-Level Evidence.	Used principal component analysis (PCA) and panel threshold regression	Deficiencies in physical infrastructure, financial constraints and institutional problems have a negative impact on FDI
Davies, Roland B. et al. (2016)	Learning or Learning: Persistent and Transitory Growth Spillovers from FDI	Using firm level data for Jordan	Spillovers have a significant transitory nature, with employment and capital growth declining. FDI attractive policies may be more effective to attract and retain via long term structural policies than temporary incentives.
Edmuud Amann and Swati Virmani (2012)	FDI and Reverse Technology Spillovers: The Effect on Total Factor Productivity	Analyses the speed back effect of FDI on total factor productivity growth in emerging economies via technology spillovers from 18 emerging economies into 34	Confirms that FDI enhances productivity growth The impact is much larger when R and D intensive developed countries invest in the emerging economies than the other way round.

Author/s and Period	Title	Methods used	Key results
		OECD	
Yoo Dae Kim Ji-tae (2016)	Economic Development Models of East Asian Developmental States	Literature Review (comparative analysis)	The East Asian success is not debatable, the debate is can it be replicated anywhere There are similarities and differences between the Ethiopia and East Asian Models. The differences are the weakness of the state in Ethiopia.
Xiaolan Fu (2007-08)	Foreign Direct Investment and Managerial Knowledge Spillovers through the Diffusion of Management Practices	Used establishment based panel data from UK	There are significant vertical and horizontal spillovers of management practices from foreign to local firms. Vertical spillovers within supply chains are the most effective transmission channel. No robust evidence suggesting reverse spillovers of management practices from local to foreign firms.
Horas Djulius (2017)	FDI and Technology Transfer: Knowledge Spillover in Manufacturing Sector in Indonesia.	Used firm level data and econometric modeling (24,591 firms)	Export orientation of domestic companies is a critical factor in promoting knowledge spillover. A high level of industry specialization facilitates knowledge spillover.
Kevin Honglin Zhang (2004)	How Does FDI Affect a Host Country's Export Performance.	Case study, the chain's case.	FDI has positive impact on chain's export performance, much greater than that of domestic capital. National policies and the host government bargaining power relative to MNCs matter for attracting export oriented FDI and for reaping its full benefits.
Borensztein E., De Gregorio J., Lee J. W. (1998)	How does Foreign Direct Investment Affect Economic Growth	Used two stage (2 SLS) and three stage (3 SLS) least squares to investigate the impact of FDI in 67 countries during 1970-1989	FDI are positively related to transfer of technology and thus contributes to economic growth than domestic investment. Nevertheless, FDI contributes when the absorptive capability of the domestic human resources.
Selamawit Berhe Woldkidan (2015)	Foreign Direct Investment and Economic Development in Ethiopia	Causality and correlation analysis used to investigate the relation between FDI and economic development	Positive and significant relationship between FDI and economic development. Moderately positive association between export performance and FDI. Negative and in significant and in significant association between FDI and spillovers.
Meskerem Daniel (2014)	Impact of Foreign Direct Investment on Economic Growth of Ethiopia.	Used time series data over the period 1974 - 2011 to measure how FDI affects GDP growth.	FDI after trade liberalization has positive but statistically in significant effect on economic growth. Positive impact of domestic investment on economic growth become less when FDI assume positive significant impact, implying crowding out effect.

2.10 Conceptual Framework

This study uses a combination of two models that would help us to look the issue under study from different angles. The choice in this regard is systems theory and new institutional economics. Framing the prevailing debate in industrial policy, foreign direct investment, institutional development along with their externalities; Export, Technology, knowledge, Managerial know how transfer, Institutional development and generally the policy learning that is expected to be generated from the industrialization process could suitably be viewed from the “system” point of view.

Rapport (1968) defines a system as, “a set of interrelated entities connected by behavior and history” He further illustrated, a system could also be understood, as a class of individuals, families, institutions and the relationship among them manifested through the communication channel they use, the influences they exert in each other, and obligation arise from their relationship. In another manner (Easton 1966) defined system as any set of variables regardless of the degree of difference among them. Taking Rapport’s definition of a system, this study looked in to relationships and communication channels of actors in Ethiopia’s IDS, using the insights gained from the three industrial parks. IDS is a (cross-cutting policy in its nature which demands the interaction of various stakeholders, but a stakeholders as “units in the system” could be viewed from the vantage point of their roles” (ibid, 1968).

Stockholders as “unity in the system” deal with the decision making, the allocations of scare resource and the implementation of the decisions that are made on behalf of the society (Rapport, 1968). Industrial policy and strategy, as we have it so far, entails the governments “role to shape the economy through their involvement in resource allocation.

Public Policy and its implementation is not in its entirety an economic one, it also political to a greater degree (Easton, 1966). He had also discussed the unique nature of a political system as distinct, because the actions, interactions “through which values are authoritatively allocated for a society is benefit. In this sense, the IDS is “an authoritative value” allocated for the society's benefit. Looking the IDS as an authoritative value

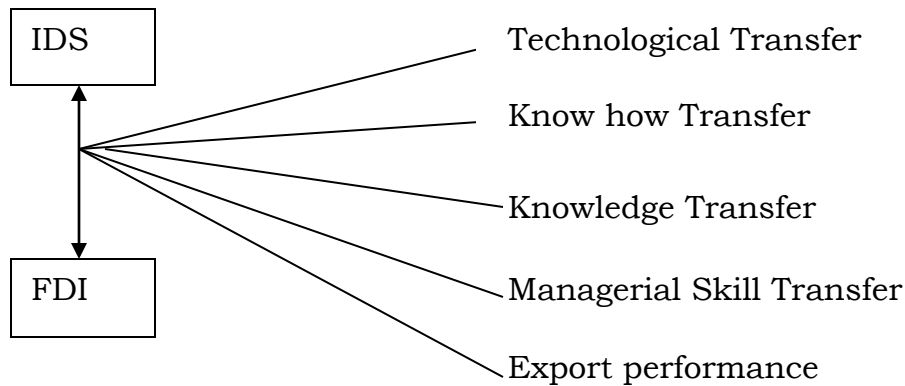
would help us to see how things are working or not working in generating the positive externalities they promised to bring.

Promoting industrialization, more specifically manufacturing by leveraging a policy as strategy is not static or stable process as such (Cohn, 2012). The level of interaction and the feedback cycle is evident for the dynamic nature of the policy cycle, which in turn determines the quality of policy learning (Birkland, 2001). Learning implies what Rapport emphasized as the gains of the relationship of actions from the use of their communication channels. This relates well what (Easton, 1966) describes as the feedback loop, which he says consisting of *“the production of outputs by the authorities, a response by the members of the society to these outputs, the communication of information about this response to the authorities, and finally, possible succeeding actions by authorities.”*

Functions as units serve as a better mechanism of understanding a social, economic, political phenomenon (Cohn, 2012) he said each function used important role to the survival of the whole system (Cancian, 1968) complimented, most functional elements share one common elemental interest in relating one part of a social system to another part or to some aspect of the whole”. New institutional economy as introduced by Justin Lin, in to the World Bank system as an alternative system to the market paradigm that emphasizes the justice of the market forces and the structural functionalism that centered on the government role. New structural economics in this sense needs practical balance between both actors recognizing the pivotal role they play or should play (Lin, 2009). Thus, this study tries to relate the universe that the IDS promised to relate with the “interplay” of functions in the selected sector.

Finally, the conceptual framework is adopted to better understand the interplay among the firm, industry, government agencies interaction as systems to have a compounded positive impact seen from the vantage point of new structural economics. Their functions and relations with the lead government agencies; within themselves, the goals, as ideations, processes of producing the externalities that are expected from them.

The government allocate values through the IDS, and accordingly provide incentives, set goals to gain the return that it defined the society deserves to have. The study with the use of this model will inquire how the actors as a system works, what functional role they assume, how do they view their role and result they have registered according to their business and policy objectives.



Source:- own adaptation.

A diagram depicting the independent variables:- Industrial development strategy and foreign direct - Investment toward the positive externalities they are supposed to result.

CHAPTER THREE

3. Research Methods

3.1 Introduction

This chapter deals with the research method employed, the sources of data, the sampling technique used to execute the objectives of the study.

3.2 Research Design

The research method and methodology gives a research its scientific nature. Research method constitutes all the method, techniques in a given research (Kothari, 2004). While methodology entails not the method per se, rather, the logic of the chosen method (Deribsa, 2017). The concern of this studies the IDS and its effect on the two traditional industries with a complex and dynamic institutional implication. The design chosen is, therefore, aims at describing the complex and dynamic interactions. Hence descriptive design is employed. A design which “describe, explain and depict” research concerns under consideration. (Deribsa, 2017). In this design the emphasis is on explaining, portraying the overall nature of the subject under study. Thus, this study is set out to describe the nexus among the IDS, FDI, and the institutional arrangement that made their functioning possible in creating the positive externalities that are envisaged on the overall objectives of the industrial development strategy of the country.

3.3 Sources of Data and Tools of Collection

The study use both primary and secondary data collection techniques. To collect primary data survey questionnaire is used. Survey questionnaires are popular tools because they are effective in getting a lot of information (Deribsa, 2017) but not without some limitations. Surveys are inflexible, thus, may lack depth. Not only to offset this limitation but to keep the balance and to have the deeper meaning, the survey focused on the managers’ reaction while semi-structured interview is administered to government officials, experts of the lead and supportive institutions who are in charge of overseeing

the IDS implementation. After having the formal semi-structured interviews, unstructured interviews were held continued to get more insight on the issues relevant for the implementation of the IDS.

The semi-structured interview helps to avoid the rigidity of the structured one, and complemented the survey questionnaire (Kothari, 2004). The unstructured interview technique is used over the extended period of the study to benefit from ideas, memories that come in the afterthought both from the managers and the officials, experts that represent government institutions.

The study has also used secondary data. Relevant books, scholarly articles, newspaper articles, popular magazines, government organizations, international institutions, and sectoral association reports are used to build the case in lights of the prevailing theoretical and empirical evidences.

3.4 Sample Size and Sampling Technique

Sampling size and technique follows the research design (Dawson, 2002). Sampling design as a method of selecting the subject to be studied should be viewed as per the objective and the research design thereof (ibid, 2002).

The study is about the dynamics among the IDS, FDI driven firms, and the institutional arrangement that made possible the implementation and the expected result of generating positive externalities that could extend beyond industries.

To look into the working of the dynamics of the IDS, FDI and institutional arrangements in the two priority sectors: Leather and Textile industries purposive sampling is taken both in the sample to be taken and the focus areas to be studied (firms residing in three industrial parks). The choice is made due to the fact that industrial parks are developed as policy tools in a bid to promote industrial development by attracting FDI.

IDS and FDI are taken in this case as independent variables. FDI's in the targeted areas exist as the result of the policy, it is to mean they work using policy driven infrastructure in the form of industrial parks. Why they are taken as independent variables is, the

externalities expected from promoting the two sectors under study are dependent on them. Secondary results are expected beyond attracting investments that is, trying to generate positive externalities of various natures to positively affect industry and economy wide growth. In this case, technology, knowledge, managerial know-how, export performance and institutional development.

The basic assumption in taking purposive sampling is the viability in selecting 'strategically adequate data for the study' (Kothari, 2004). Externalities in industrial development as discussed in the literature review part, does exist in the form of transfers and linkage effects. Measuring and trying to understand the possible answers for the research question purposive sampling of firms that have direct relations with the independent variables – the IDS and FDI is assumed more viable than other options. To gain insights on what is being happened in the nexus and dynamics between the IDS and FDI park managers view, insight are used as a proxy measures.

A study by AACSSA (2014) indicates less than 4% of the labor force in both industries is in managerial positions. Further observation and discussion with a lead agency (EIC) and supportive agencies, experts (from LIDI &TIDI) confirmed there are 6-7 managers in a given shade 10 (ten) shades, that are covered in this study. All of them are foreign owned and have 30 enterprises in them. Therefore, the average numbers of managers in all 30 enterprises are around 180-200. Using Krejcie, R. V. and Morgan, D. W. table for determining sample size to collect a data for a population size of 200, 132 sample should be taken. Thus, 135 questionnaires are disseminated aimed to collect with 95% confidence rate and 120 questionnaires are successfully collected.

Six park managers representing EIC, two from each park are involved in the semi-structured interview in providing insights on the nexus in question. four official and senior experts from the supportive agencies (LIDI and TIDI) provided their insight on their respective institutions role, relation with the firms in the parks and across the industry. In addition to this, EIC officials in directorial position, IPDC experts, and MoI experts took part to elucidate on policy goals, performances and gaps that are discussed by the other agents which helped to capture the details of the two GTP periods as much as possible. The informant's information is summarized as below.

Table: - Key informants from lead and support agencies

Number of informants	Institution they represent
2	Ethiopian Investment Commission (EIC)
2	Huajien Industrial park
2	Bole-Lemi industrial park
2	South-west Industrial park
2	EIC
1	IPDC
2	MoI

N.B: The informant indicated in the lower row is informants at the top management level.

3.5 Method of Data Analysis

The data is analyzed using a combination of methods. The survey questionnaire is used as a proxy of measuring externalities as a function of the IDS, FDI and the institutional arrangement they are working with. SPSS is used to generate descriptive statistics; frequencies are analyzed, to perceive the correlation among factors.

The key informant interviews are analyzed in parallel with the survey result to triangulate and offset the weakness from any of the methods. The survey results, the secondary information relevant to the industries concerned and informant interviews are analyzed to gain the insight that is discussed in the next chapter.

3.6 Description of Variables

The IDS and FDI are taken as an independent variables, as it is evident in the policy and the implementation to date, especially the aggressive move on building industrial parks are meant to spur externalities from their interplay.

FDI (Foreign Direct Investment), as indicated in the IDS is promoted and sought not only for the capital formation but also for its other externalities in the form of technology,

knowledge, managerial know how, skill, and the combined effect thereof, institutionalized learning that could make industrial take off and “catching up” with the advanced economies through learning.

FDI may have long list of externalities to think of, for this study, only technology, knowledge, managerial skills, export performance, capacity building as the functions of institutional dynamics are taken as dependent variables. In which the presence of IDS and FDI are argued to promote their existence to affect a given industry and even the broader economy positively. Whereas, export promotion and performance as a sign of combination of features that signal how the factors being assessed are working.

3.7 Instrument Reliability and Validity

For assuring reliability and validity a pilot study was conducted. Accordingly, the questionnaire was distributed to 15% of the total sample size. After the pretest, the researcher identified the gaps of the questionnaire and made necessary modifications by rearranging the questions in a more systematic way and revising some unclear words to make easily understandable to participants. Moreover, this study ensured the reliability of the instrument (Likert scale questionnaires) using the widely used Cronbach Alpha to verify the reliability of the construct.

Therefore, Cronbach Alpha was used to test the reliability of the proposed constructs. Regarding to the designed Likert scale questionnaires about FDI contribution to the industries (textile and garment and leather and related products) with respect to externalities and institutional follow up and administration guidance given to FDI-textile and garment and leather and related products industries were found to be a coefficient of 0.760 respectively. So, the study was reliable.

CHAPTER FOUR

4. Data Analysis, Results and Discussions

4.1 Introduction

New structural economics views market as the ‘central social institution’ the emphasis given to the active role of the government, as Lin discussed it succinctly, industrial upgrading and technological innovation could not come from private individual firms alone. Infrastructural development has been repeatedly picked as the most crucial base for industrialization, by and large to economic development. Moyo, furthermore, success in a policy as complex as industrial policy needs ‘systems view’ because issues related with institutional arrangements are still beyond the power of individual firms; but it does not mean firms do not have a role, it is advocated as part of the system, their feedback and involvements are important to improve the quality of ‘learning by doing’ (Wade, 2010).

The survey assessed some aspect of the implementation focusing on the selected externalities, how they are perceived by Ethiopian managers who have a touch with firm level policies and triangulating their feedbacks with government officials and experts who have responsibilities of overseeing the IDS implementations on the selected two sectors.

4.2 Ethiopia’s Industrial Policy Pillars and Contexts

4.2.1 The Policy

Ethiopia adopted an industrial development strategy (IDS) by the end of 2002. The strategy is said to be unique and the first of its kind in the history of the nation (Altenburg, 2010). Before then, and even after it, the nation is following the agricultural led industrialization (ADLI) as a core economic policy line. The ADLI’s critical objective is bringing a structural transformation in the economy which is still unproportionally dependent on agriculture (MoFEC, 2016, NBE , 2017). Hence the key

rationale for the IDS is accelerating the transformation process that links key sectors in the economy (EIC, 2018).

Generally speaking the policy is designed based on seven interrelated principles (ETIDI, 2018). These principles are:

- Taking private capitalists as the engines of the industrial development strategy;
- Promotion of export lead industrialization;
- Taking ADLI as a key driver to the IDS.
- Supporting labor intensive industries.
- To achieve the IDS objectives, using local and foreign direct investments (FDIs) in a coordinated manner.
- The necessity of providing strong leadership by the government.
- Mobilizing the entire society for industrial development.

4.2.2 Pre and Post IDS Context

The incumbent government came to power in 1991. Along with the radical political change, the economy was also entered into a new chapter promising a structural shift. The period between 1991 and 2002, which is before the advent of the IDS, referred by some as confused, grey, unfocused, and lost with regard to industrial development (Birhanu, 2005). While others view that period as a time of major state building as a precondition for transformation (Uqubay, 2015).

In 2003 the IDS entered into the economic system. In a period which is referred as the 2nd phase (2003-2012), the IDS is said to give a clearer national visions, with national strategies and policies (Uqubay, 2015). The IDS which has stipulated the principles to be guided by and the priority sectors to base the economic transformation process (Altenburg, 2010, Cramer & Meizel, 2008). The sectors indicated in the IDS are textile and garment, leather and leather related products, chemical, metal, and agro-processing and construction industries.

The principles mentioned above are in alignment with the characteristics that we have been discussing about the developmental states. The expressed interest in providing

‘strong leadership’, the expressed desire of mobilizing the entire society towards industrial development, and particularly targeting few sectors as priority directions are few examples that goes with the characterization of developmental states as shown in (Chang, 1994, Johnson, 1982, Amsden, 1989, Evans, 1995).

The choice of industries, like the concern of this study – textile and garment, leather and leather related products either follow the comparative advantage logic based on particular endowments of a nation (Lin, 2009) or the other way around focusing on industries of deliberate choices to develop the competitive advantage, as discussed by (Chang, 1994) a line of choice which sometimes referred as ‘Kaldorian’. Ethiopia’s choice of the two of the oldest manufacturing sectors took a strong leaning on using the endowment to benefit from the comparative advantage. For instance, the textile and garment industries investment promotion materials usually discussed the comparative advantages the nation could acquire because of its proximity to the Middle East market, the presence of the key raw material, like the ‘white gold’ – cotton as a good example for the choice made. The leather industry is also working hard to attract more and more FDI in the country in order to use from the untapped livestock resources.

The key informants of this research reached consensus about Ethiopia’s industrial policy, especially with the two sectors under consideration could not be said uniformly Ricardian, that is, primary commodities oriented that want to build the comparative advantage from the low end. As it is, the policy, is export oriented by design, the economy expects increasing return from increased productivity, that is why learning and technological capability development govern much of the quality sought after from foreign firms that are operating in the nation.

4.2.3 The Industry Structure

The design of industrial policy is by and large informed by a country’s general economy. Regarding industrial development, the industrial structure, the development stage a certain industry finds itself vis-a-vis with the growth opportunities it has and the institutional setting that is in place (UNCTAD, 2018, Lin, 2009, Stiglitz et al., 2013). Ethiopia’s industrial development strategy is no different from the above mentioned

design narrative. The country's industrial structure is highly dominated by resource based firms, that are small by size, and more often plagued by the 'structural constraints' of low productivity, low value, low global competitiveness (Gebreyus, 2009, Altenburg, 2010). Informants from Bole-Lemi, Huajian, and South Eastern industrial parks and EIC senior officials, experts agreed on the pattern and added changing this structure has been a continuous challenge to date that inhibits the nation, in part, from achieving transformation.

The IDS is export oriented and labor intensive. Export orientation implies improvement on the need to radically change, variables, like that of technological infrastructure, manufacturing system organization, the absorption capacity, hence, global competitiveness. (WB, 2006, N. Chete, Adeoti et al., 2018). The primary socio-economic and political objectives of creating jobs, the most significant theme that consistently expressed from government industry specialists who respond to this study who had repeatedly reiterated the state aspiration of the Asian 'miracle'.

The reports the researcher reviewed and the insight acquired from discussions with various actors indicated the industrial sector contribution to GDP and the shift in structure within industries are below expectations. Why?. The answers are multilayered, for this research the researcher looked closely the dynamics that is expected to change an industry; the nexus between IDS and FDI within them the positive externalities that are pivotal to shift the economic structure.

Speaking of the industrial structure at the early stage of industrialization in poorer countries resembles in many ways (Kenny, 1998, Wang, 1995). In these countries industries are composed of small firms within fragmented value chain, low level of innovation (Tefera et al., 2018). Having said this, the Ethiopian industrial structure has its own unique features, as it is the case in most poor countries, small firms concentrated in areas of the capital city and its surrounding, what is unique about Ethiopia is small firms, mostly food stuff related. More than 40% are grain mills, and 75% of the overall manufacturing industries are found in and around Addis Ababa shows how the structure is poorly evolved and why promoting the manufacturing sector is imperative (Gebreyus, 2009, Altenburg, 2010).

The industrial structure rigidity does not only limit to its size and composition alone, its contribution to GDP almost remained the same over six decades (Tsegaye, 2018). The industry which comprises the manufacturing, the mining and the construction sector share to the GDP is 13% of this the manufacturing sector contribution stagnate at 5% (Gebryesus, 2009; Altenburg, 2010). Employment wise, the picture is not so bright. The leading sector agriculture, contributes for half of the jobs created, quarter of the jobs created from the service sector, the manufacturing sector created less than the wholesale and retail businesses in the past 60 years (Tsegaya, 2018).

The IDS is pursued against the backdrop of these complex constraints. To change the industry structure and transform the economy; looking industrial policy from Lin's new economic institutionalism perspective the industrial strategy must address specific obstacles "technological gaps, patchy supply chain, insufficient scale that prevent a particular sector from takeoff" (Brautigama et al, 2016). Industrial targeting, business climate improvement are pursued to a different degree, one proliferating trend has also been witnessed, the promotion of Special Economic Zones (SEZ) specially industrial parks development emulated from China to compliant the infrastructural development deficit that should be in place to support industrial take off (Lin, 2009: 14, UNCTAD, 2018, Brautigam et al., 2016).

Implementing IDS within sets of interrelated constraints is a continuous challenge which needs much of learning and coordination (Tsai, 1997). Ethiopia's IDS is designed to offset critical obstacles that hold the economy from transformation. Measuring changes needs measuring of externalities. Despite the constraints discussed in the design section, this study approached the lack of information by asking for fresh and primary data from Ethiopian managers, experts in three of the selected parks mentioned earlier who are working with expatriate managers and experts who are supposed to transfer technology, know-how, skills, managerial practices that are expected to have broader effect in the two industries and beyond.

Efforts were also made to fill the gaps from the survey findings and to learn more on the IDS implementation in the two sectors. The strategy and FDI's relationship in building the

externality gains and the institution capacity building that are formal and informal is explored through semi-structured interviews. The results are discussed as follows.

4.3 Respondents Profile

The study targets managers to get their perspective that emanates from their firsthand experience which is considered to serve as a proxy measure to the IDS, FDI and institutional arrangements effectiveness to produce the positive externalities. As there is dearth of study in the area, getting the perceptions of the managers, who are in charge of a given function and in a position of power to supervise others so as to implement firm strategy and policy that may have significant influence to the industry they are working. As the table below shows, effort was made to gain insight from both who have more experience (measured in years) and those who might have lesser.

Table 1: Length of Tenure

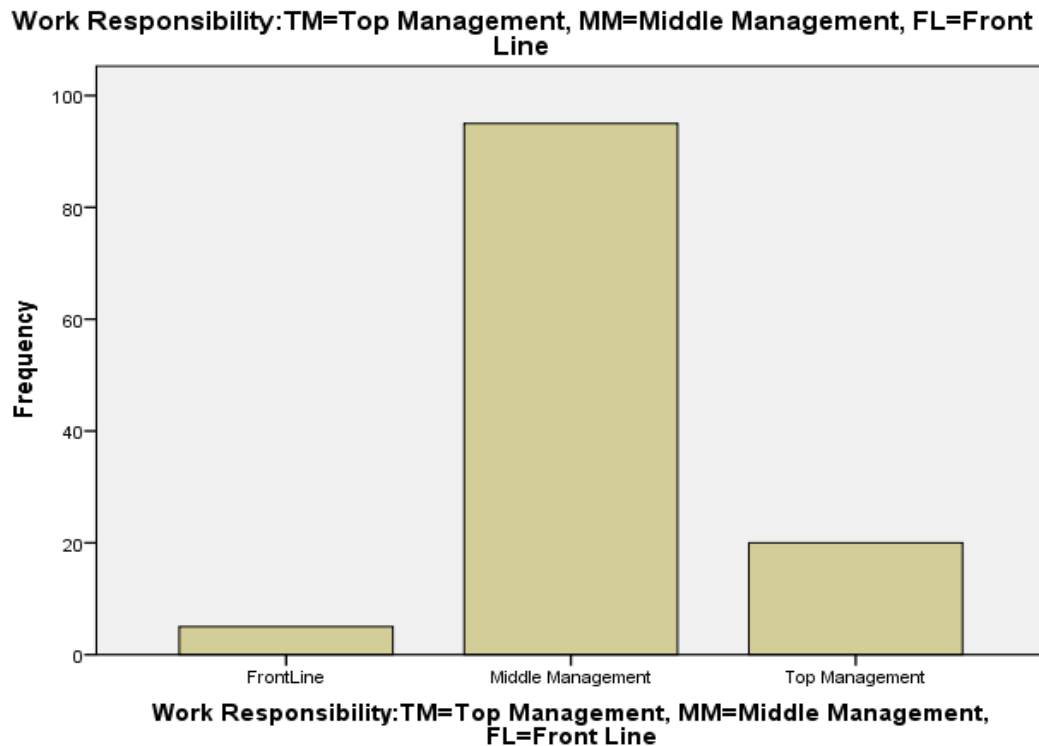
<5 years=Less than five years, 5 to 10 years=Five to Ten Years

	Frequency	Percentage
Less than Five Years	50	41.7
Five to Ten Years	70	58.3
Total	120	100.0

4.4 Respondents Profile

Responsibility profile

Figure 1: Respondents Profile

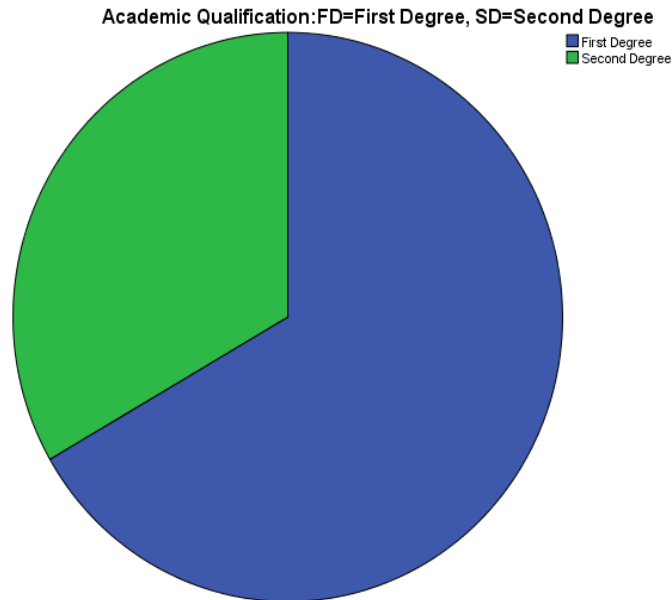


As indicated in the research design the study follows a purposive sampling method to target those who could have firsthand experience due to their exposure and responsibility. Insights are gained from managers from the three parks. To gain the primary data on the issues extra effort were made to have the perspectives from, the middle level managers who interact and bridge the front line with the top management. Follow-up discussions were also made with top and frontline managers particularly to distill and shape perspectives. The following graph shows the composition of managers.

4.5 Academic Qualification

The managers' academic qualification is as presented in the following diagram.

Figure 2: Academic Qualification

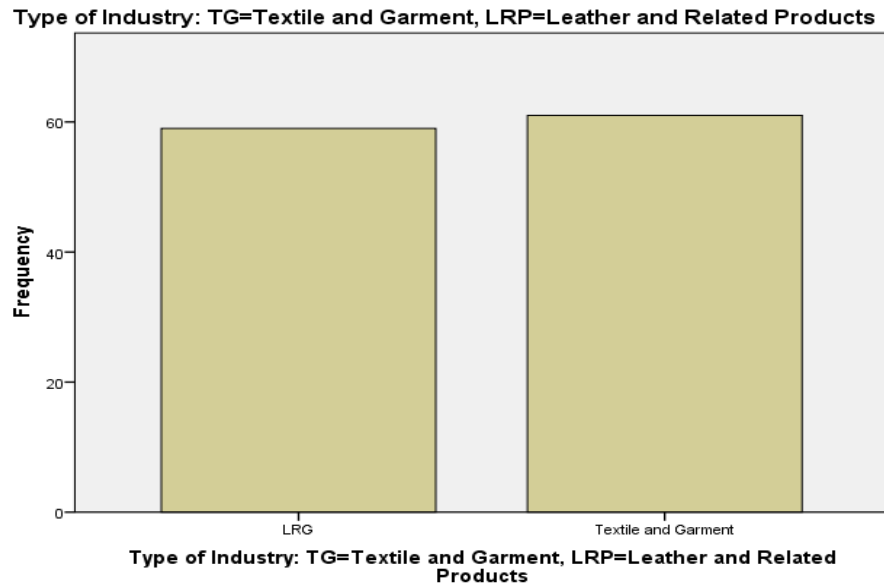


4.6 Type of Industry

The two sectors: Textile and Garment and Leather and leather related products industries are among the priority sectors since the inception of the IDS to date. The study has taken a cautious move in balancing the distribution of questionnaires in both sectors to gain a balanced representation.

The chart below represents the respondents' composition by industry.

Figure 3: Type of Industry



4.7 Externalities Discussed

4.7.1 Perspective on Knowledge Transfer

Training is one of the most popular capacity building instruments. As observed in the previous questions managers' response on firm level talent policy, to say the least, is vague.

Thinking industrial policy within developmental state framework is about 'pushing'. According to an EIC official, 'the big push' is about investing in many areas at once and expecting a compounded effect in the payoff. Training as a capacity building tool is considered as less expensive and more effective way of knowledge transfer. This is how government officials understand the policy orientation that emphasized a multi-pronged push, therefore, training is considered one key externality expected to be gained from foreign owned firms that are generally assumed to be better positioned to provide it than their domestic counterparts.

Two informants from the two supportive institutes recognized the importance of encouraging, monitoring, and supporting intra-industry (horizontal spillovers) and said

they do not have enough mandate or capacity to do it themselves, let alone to follow and measure vertical spillovers against policy objectives. Anyhow, the survey response for the question that tries to get the level of awareness on training policy at the firm level, only less than ¼ of them said they have a clear understanding of a training policy at work. More than 50% disagreed on the presence of a training policy.

In the follow up discussion after the interview the managers and the informants admitted the presence of trainings but informed the study that they are not sure whether the trainings are the results of policy or simply reactive responses for the opportunities that are available on the market, for instance trainings that are facilitated and given by the lead and supportive institutes.

FDI is not a substitute for domestic investment. The literatures and the empirical evidences covered in this study confirmed this fact. Among the key reasons why FDI is pursued in developing economies is knowledge diffusion. Knowledge diffusion in the form of technology use, innovation, reverses engineering or managerial know-how or skills.

It was pointed in this study's literature review part, not only physical infrastructure knowledge is also a public good. For instance, (Stiglitz, 2013) argued knowledge diffusion is in the public interest, and not in the immediate interest of the firm which implies the justification given to government intervention in the form of IDS.

One can argue this aspect of knowledge diffusion could be facilitated by managerial skill transfers. The survey tried to find out two tied up issues in this regard. One, the attitude of foreign managers to transfer their know-hows, knowledge and skills. The response showed the perceptions are far from the policy goals.

15 of the respondents (managers) agreed that foreign managers have the right attitude, 30 of them do not consciously followed this issue. The vast majority thought foreign managers are not interested to share their knowledge. The informants from EIC said the response from Ethiopian Managers is not beyond their expectation. Because, one, the academic qualification of foreign managers are not known, two, as their salary and their compensation packages are large knowledge transfer is simply perceived as working

against one's interest. As we do not have a coherent policy that obliges them to comply, the country will not have the means to affect their behavior in this regard.

Ethiopian managers were asked if they observe Ethiopian managers and professionals are replacing foreign managers. 50% of the respondents strongly agreed and confirmed that they are observing a positive trend. However, only 5 individuals said the level of replacement is good. The informants that are involved on the study doubted if our managers believe foreign managers are as competent as they are perceived to be. The attitude deficit on both sides might have affected sharing and receiving knowledge. The foreigners to maintain their position, that is to say, a privileged position since their qualification for the job is not clear. On the other hand Ethiopian managers' lack of trust in the fairness of the system exacerbates the poor learning condition in the park.

The informants argued minimizing foreign managers' salary is in the interest of firm owners, either foreign or domestic. So, if the firm owners are not expected to do against their rational self-interest, facilitating knowledge transfer and replacing expatriate managerial staffs with domestic one seems a rational choice. If this is the case what the pattern shows there are a bottleneck that hindered learning and knowledge transfer. One such possibility is lack of clear metrics and a requirement that insists on measurement. Raising competitiveness, hence the capacity to do well in the global market might be regarded as sufficient pushing factor to upgrade the knowledge and skills of domestic labor whether it is managerial or otherwise.

The IDS discussed labor intensive industrialization. Endowment both from material input side and the labor are considered. For a nation which has the most youthful demography no wonder about the attention given to job creation. However, meeting the target in this regard has also been a challenge so far. For instance, Bole-Lemi Industrial Park employed 14,200 employees, short of more than 10,000 to reach the target.

Informants of this study from the lead agencies attested the fact but stressed the importance of other factors in achieving the employment targets. To hire more the firms should use the production capacity close to their potential. The labor that is already at work is not stable; turnover is consistently high, a data from IPDC confirmed the trend.

During the 1st half of the 2018 fiscal year alone Bole-Lemi lost 7.84% workers, that same period Hawassa industrial park had lost close to 4,470 workers.

The paradox is an obvious impediment. Managers and informants when asked to rate key challenges that need a government attention are unanimously agreed on the alarming trend of turnover and its impact on productivity. Working condition and wage are not sufficient. Furthermore, there are numerous reasons to believe it would not be improved in the short run due to the paradox: underutilization of capacity, low export performance and a raising living expense. The informants agreed the paradox will continue because promoting lower wage as incentive to attract investment will not be abandoned in the short run. There are ample studies that show the inverse relationship lower wage and productivity have. For instance, Altenburg (2010) rather strongly argued against the cheap labor argument as a lure for FDI by pointing out Ethiopia's labor is ¼ of its Chinese counterpart in productivity, if not improved soon, these so called 'cheap and trainable' labor advantage would be eroded.

Table 2: Correlation between FDI Contributions to Knowledge Transfer

Correlations			
		Follow up and administration guidance	Knowledge transfer
Institutional follow-up and administration guidance	Pearson Correlation	1	.285** .002
Knowledge transfer	Pearson Correlation	.285** .002	1
**. Correlation is significant at the 0.01 level (2-tailed).			

The managers' perception on the role knowledge transfer and the institutional support necessary for knowledge diffusion is strong. The correlation between the variables is strongly positive which implies strong implementation devise and ways to measure them need to be worked upon. Further, observations and discussion followed the attitude for informed 'administrative guidance' or close institutional relationship are positive. The problem is firm managers do not view government officials or experts as having the

competence. Officials on their side held a strong opinion that firm owners are after the unregulated incentives and profits alone.

This ‘cheap and trainable’ argument implied an orientation that is suitable for knowledge transfer. The researcher asked the informants if they do not measure, how they assume to improve knowledge transfer. They informed the study, that is one area they wished they had the answer too.

4.7.4 Perspective on Managerial Skill Transfer

Table 3: FDI Contribution to the Managerial Skill Development (Firm Level Capacity Building)

Statement	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
Your company has a management talent development plan that is helpful in managerial skill, knowledge transfer	45	30	25	20	
Foreign management staffs are better skilled and educated than their Ethiopian counter parts	40	35	30	15	
Your company have a training policy that encourages knowledge, experience transfer	45	30	25	20	
Foreigners that you are working with have the right attitude to transfer what they know	40	35	30	15	
Ethiopian managers and key technical staffs are replacing expatriate managers and experts in your firm	60	40	15	5	

It was one of the questions that the key informants were found to be vastly divided. Whether the foreign managers are better skilled or educated brought forth two themes.

One, there is no enough information to suggest either way.

Two, even though the information is not enough practical observations are good enough to judge and most of the expatriate managers are better in what they do.

Further discussions revealed another curious point. The Ethiopian managers and the experts from the bureaucracy suggested that foreign firms have an organizational culture that is secretive to the point of hiding simple facts like that of their managers' educational background. Other said, educational background has nothing to do with what they are expected to deliver. However, a higher official from IPDC who informed this study suggested, it could be one source of the problem the sectors are faced in codifying experiences, hence exacerbating the skill, even more the knowledge transfer problem.

Hiring whoever they like to hire is taken as the firms' right, unless they are asked to present very few of their key personnel's and hire the rest from the domestic market the problem may persist. The EIC's senior expert who is assigned to support export performance suggests most of the firms are concerned with financial reports and incentive packages other than the quality of management and sustainable firm growth. The performance gap could possibly imply the weak intra industry linkage and collaboration. The respondents' response on institutional coordination confirmed the intra industry learning, best experience exchange is indeed less than what is desired.

Firms covered in this study, and the government agencies working with the foreign owned firms do not have organized data on key objectives. For instance, knowledge transfer is a visible policy target but no organized information was found either from the firms or the government agencies side. This problem was anticipated from the outset and the survey questionnaire presented to the managers designed to serve as a proxy measure of what is happening actually in their day to day operations. The study tried to measure, how the managers view the FDIs most important benefit according to their own personal experience. They were asked to rate capital formation, technology transfer, better pay and employment conditions, managerial knowledge and skill transfer, and the linkage effects on the industry. Overwhelmingly, 98% of the respondent answered capital formation is the most important benefits of FDI. The most important point that was observed from the respondents from the informal conversation made after the survey were, whatever the benefits from the FDI could be, it is not close enough to their personal life. The answers they have given for the subsequent questions substantiate this fact further.

For the question, that asked ‘if they worked or working with a manager or managers of foreign origin’ they all answered in affirmative. When they were asked if their firm has a management talent development plan that is helpful in the managerial skill and knowledge transfer (as it can be observed from the above table.

Only 20 respondents (16.7%) of them agreed that their firm has a plan.

The response for the specific question indicates two things. One, the plan exist but very poorly communicated or it does not exist. Experts from the EIC, LIDI and TIDI said there is a plan in most of the firms they have been working with but admitted they do not know how it is being implemented. They do not only say simply they do not know, it is not a mandatory requirement of reporting on the firms’ side. Only one key informant from EIC who works as a park manager at Bole Lemi industrial park said there was a knowledge transfer contract for some of the firms and their expatriate staffs that ask about the number of Ethiopian labor they trained and what specific knowledge and skills they have managed to transfer. He further said as it was not consistently followed and insignificant to build a narrative from it.

4.7.2 Perspective on Technology Transfer

At the early stage of industrialization poor countries lack almost everything essential: clearly set direction, leadership, the capital that would make kick off possible in the form of infrastructural investment. Industrialization needs unleashing the ‘latent potentials before reaping the benefits (Amsden, 1989, Wade, 2010). Then, facilitating learning is considered by many critical.

Technology transfer in principle grabbed the attention of the policy makers, implementers, and firm level practitioners alike. The emphasis given by the firm managers for technology transfer complemented with the responses of the key informants. The informants, who are from key lead agencies and supportive institutions confirmed they are very keen on technology. Jobs, technology and productivity are complex issues hard to be treated in isolation.

From the policy perspective it is apparent the level of attention job creation has been enjoying. The two industries have historically proven records of creating jobs for lowly skilled labors, and for making better gender parity, albeit consistently trapped in low productivity trap (Tsai, 1999, Seguino, 2010). This fact lays the rationale for pursuing a better technology and the transfer of it. Even the legal mandate given to the two supportive institutions (TIDI and LIDI) singled out technology and productivity using better technology as their policy goal. However, the industry's current technology usage is far from the expectation.

A survey done by AACSA (2014) reports the textile and leather industries response for the level of technology usage generated a response, 52% from textile, 66% from the leather sector said-enough use of technology on Likert scale that puts excellent use, very good and lower to the poor end. The key informant agreed with the general take.

FDI is said to move as a bundle of resources (Kumar, et al., 2005). FDI is pursued by poor countries, and advised to be pursued, to benefit from the bundle which the early stage industrialization needs too much. However others warn us, the quality of FDI does not rest on the volume of capital (Gebreyesus, 2009). The net impact of aggregate capital formation by the host country is highly dependent on the interplay and result from linkages (of the bundles) and the spillover thereby (Maurice, 2004) one such linkage is FDI driven firm and its relationship with the local SMEs. The result shown above looking the issue critically is imperative for the policy makers.

One structural weakness area repeatedly discussed by government agencies is fragmentation in the value chain-weak linkage between foreign firms with local ones. For instance, the GTP I final report (NPC, 2017) admitted the same fact. The AACSA report mentioned earlier reported input supply is a persistent bottleneck, less than 5% in both sector said they got their input locally.

Taking the current context of the national economy which is suffering from foreign currency crunch and raising national debt, the weak linkage not only showing performance gap in meeting the policy objectives, it does also show sourcing what could have been supplied easily had there been the minimum level of linkage is one of the

issues that needs immediate attention. And corrective measures from the policy makers and key institution is urgently expected.

4.7.3 Perception and Performance of Export

Ethiopia's industrial strategy is based on some notable principles. Among these principles, the export orientation and export promotion is central (IDS, 2003). Developing country with critical structural constraints apart from the massive investment in the physical infrastructure they should read well their own political. No matter how they differ on ideological orientation nations pursue (Cohn, 2012).

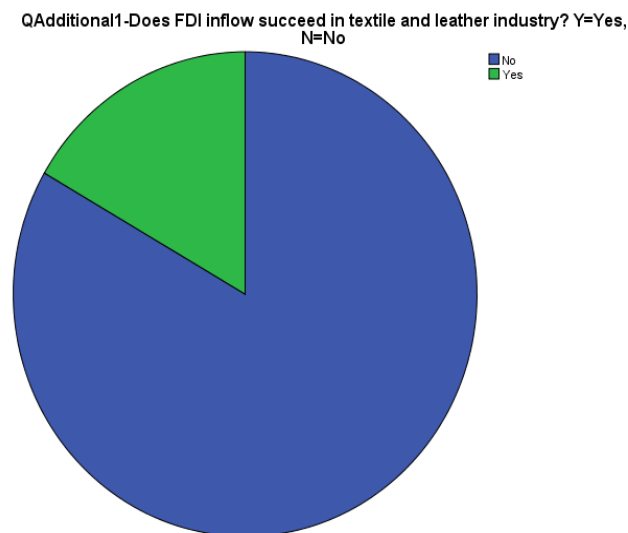
Export promotion implies the readiness to compete globally. The export performance, the industry structure, and the contribution of the manufacturing sector in shaping both the export performance and shifting the industry structure in the two GTP periods is below the targets. For instance, the two sectors were planned to earn 1 billion and 500,000 USD, for textile and leather sector respectively by the end of the GTP I period. The general performances of the industrial sector were 402 million USD; the two sectors combined contribution was 98.1 million USD (MoI, 2015). At this same period export performance stood at 9.7% of the GDP, whereas imports were at 27.1%, the trade balance was 17.4% in favor of import.

What is the problem? Why the lag in export performance has persisted despite the wide recognition it has generated as a goal and performance indicator at the same time? One reason why aggregate capital, employment opportunity and export performance are widely discussed is because of their nature that could be quantified, and the relatively easier accessibility of data despite the uncertainty on the accuracy of the data. Yet still, all the informants agreed on the fact that export performance indicates much deeper problems, to mention some of them; the wide discrepancy between plan and performance is attributed to the plan itself. All the interviews concurred on this; the plan was and still is too ambitious. The plan – performance disparity was widely discussed in the research process. Informants from IPDC indicated because the base was wrong the plans are also wrong, thus, making both monitoring and evaluation inconsistent.

National export goals do not make sense if they are not aligned with management goals and capabilities to perform. The managers views on the benefits of FDI, and the overall success rate is not contrary with the data. (See the following diagram).

The perception on this count may not mean significant to represent the industry. However, if commitment from actors is imperative in succeeding on the policy objectives. The fact that key players are looking themselves as suffering in a lost game should be taken seriously. Experience from the success stories of the developmental state dictates attitude from all actors should get attention and framed and reframed with evidence, on performance and performance indications. It additionally showed no proper data is available in a right quality and the communication is not enough and strong enough to create believe and sustain momentum.

Figure 4: Does FDI inflow Succeeds in providing Positive Externalities in the Textile and Leather Industries?



Though the two sectors are considered priority sectors that have the potential to spur the manufacturing sector growth. After a decade and half in implementing the IDS, the results are slow. Now at the near completion of the second GTP the latest available data shows the country is expecting a challenging journey ahead.

According to the report from Ministry of Industry (MoI, 2018) the local manufacturing sector expected less than 50% of the plan set to be realized in the 2017-18 fiscal year. The rift between plan and performance; the target was USD 997.9 million the performance is 487.5 million (ibid, 2018). One can observe the patterns are the same. In GTP I the performance was less than 50%, thus it is reasonable to ask what was learnt. Does the nation fail in policy learning?

The informants who were asked on export target monitoring and global competitiveness reflected on three distinct areas:

First, the actual productive capacity of the firms is not tested. Most of the firms are doing below their production capacity. A study done by (AACCSA, 2014) revealed the same reality. For example 73% of the textile firms covered on their study (which were 24 firms) said they do not use their plant and technology in their full capacity. For more specified questions of technology utilization, 52% of textile firms said the usage is enough, 66% of leather products producing firms said the same. The rest of the answer pointed to poor usage of technology to a various degree.

Second, foreign owned firm owners, expatriate managers and to some extent Ethiopian managers as well complain a lot about the productivity of the labor force. Productivity is a result from set of variables harmonious interactions in which working culture is a part. The culture problem is mentioned by many actors but few attempts to study it were found, none to this researcher is knowledge was done specifically on the parks that is being addressed in this study.

Third, the absence of trade policy is discussed by the experts and the officials alike as one detrimental factor in impeding competitiveness. The AACCSA sources had also mentioned lack of marketing skills and market networks as factors that exacerbate the minimum utilizations of production capacity. The association informants argued, if these points were addressed well, externalities; including knowledge transfer would be better than what it is.

Most of the empirical studies covered on this study converge in one very key observation. In most cases, FDI driven firms are better than their domestic competitions in their

technology, process, information, knowledge, market related networks. Lin (2009) has observed this in China and Britain. From this observation, one opportunity and one concern are still prevailing in the IDS and its effectiveness debate. On the opportunity side, if a foreign owned firm is well positioned in all the success factors discussed so far, a domestic firm may have an ample opportunity from the learning effect and the competitive pressure that it experience. If the scale of learning and the competitive pressure are good enough to affect an industry, the benefit would be seen in the economy. On the other hand, the concern in the form of crowding out the domestic players is not negligible. The theoretical and empirical debates have given it a space, warning nations to take deliberate measures to strike the balance. If the spillovers in the form of the aforementioned transfers are not observed the quality of the FDI will be in question, or rather should be in question.

4.8 IDS, FDI and Institutional Arrangement

4.8.1 Challenges and Prospects

Specialized industrial zones are getting more and more popularity along with the resurgence of industrial policy. Ethiopia emulated the Chinese way of spurring economic development through key development corridors with distinct specialty in the priority sectors. One of the anchoring ideas with regard to building development corridors and specialized zones is about creating critical clusters. Scholars like Stiglitz (2013) discussed the benefits of clustering in building and benefiting from the agglomeration effect that come out of it. Many researches showed enough empirical evidences on the effects of clustering; chief among many benefits is making learning easier and thereby competitiveness.

It was said by many commentators, policy makers and implementers alike, Ethiopia's industrial development strategy either modeled from or inspired by the successful experiences of developing nations that made industrial development strategy epicenter of their economic development drive. The agglomeration economy has been the enduring logic thus far. The East Asian economy and the Chinese rise of the past four decade in

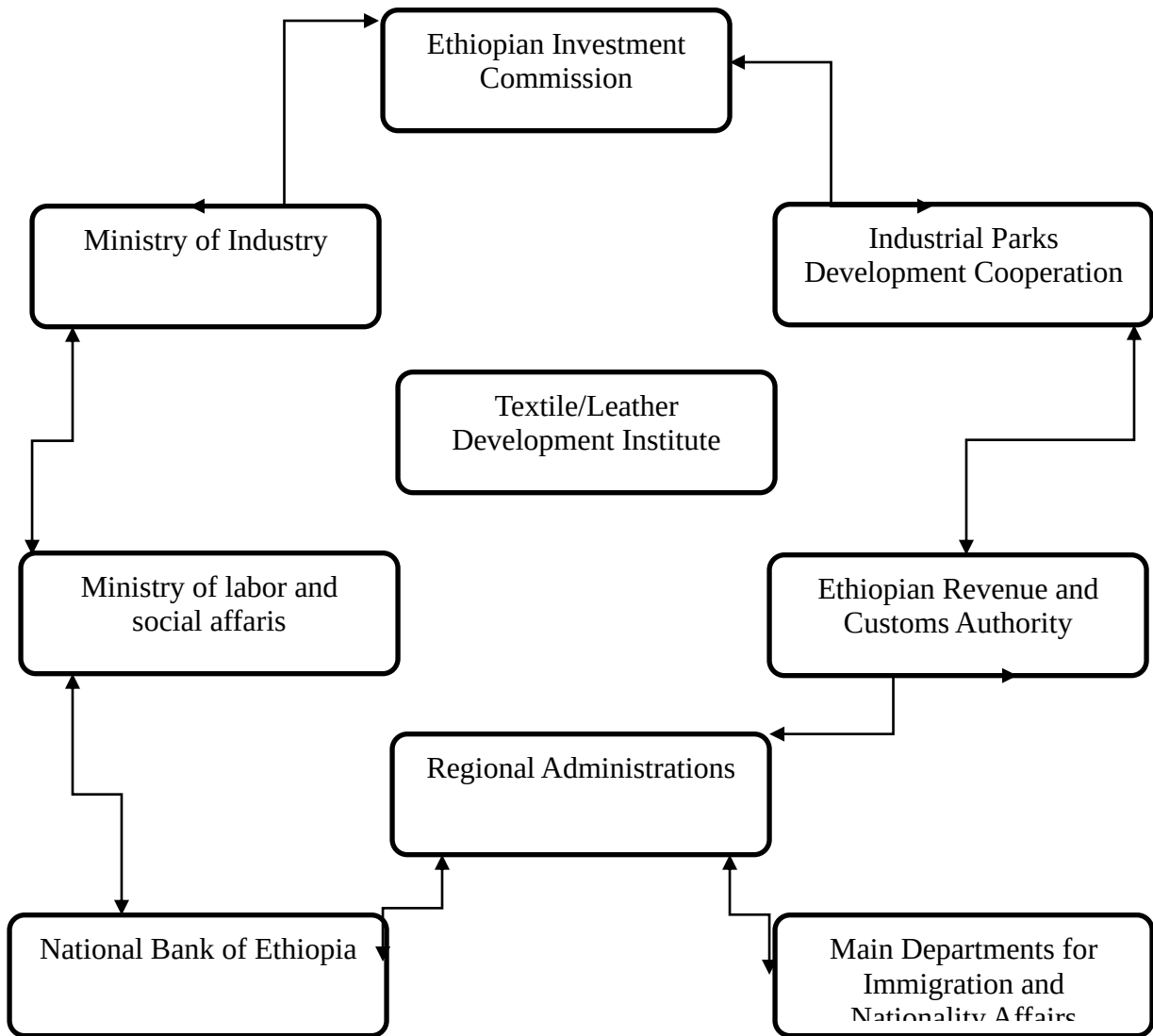
part proved the success of industrial policy. Ethiopia's 'anchoring principles' for the industrial park development is a telling fact for the desire to repeat the success.

The anchoring principles are: developing specialized parks, driving export orientation, skill development and competitiveness, vertical integration (enhancing backward and forward integration in the economy) and sustainability (maintaining high environmental standards). The principles have the inbuilt benefits that are supposed to be gained from the IDS. Adopting working principles is one thing; however, indigenizing the process of implementing policy is quite challenging everywhere. IDS should be or rather must be unique, which implies the policy should be crafted with full recognition of the nation's historical realities, not only on endowments related with natural resources and labor. The likes of Amsden and Lin pointed the importance of context in putting the policy to effect.

The institutional arrangement, the stakeholder's relationship and the management of policy goals should be aligned to produce result is one proven perspective to assess what is working and what is not working. History, context matters. (Lin,2009) wrote developing nations should 'revert to Adam Smith' not to his research finding that was reported in his famous book 'the Wealth of Nations' but to 'his research approach' that emphasize 'an inquiry in to the nature and causes of wealth' which is to be found in the nation's history, political economy and other socio-psychological conditions.

Almost all official documents the researcher has found tell the base of the policy in political economy terms and advocates structural change. Little to be found how the institutions are supposed to work, rectify their mistakes, learn from success. One attempt of this study is to get how the functioning institutional arrangements are working through the managers' experience. Before discussing responses of managers for specific answers the survey questions that covers institutional working let us look at the institutional arrangement that is officially at work.

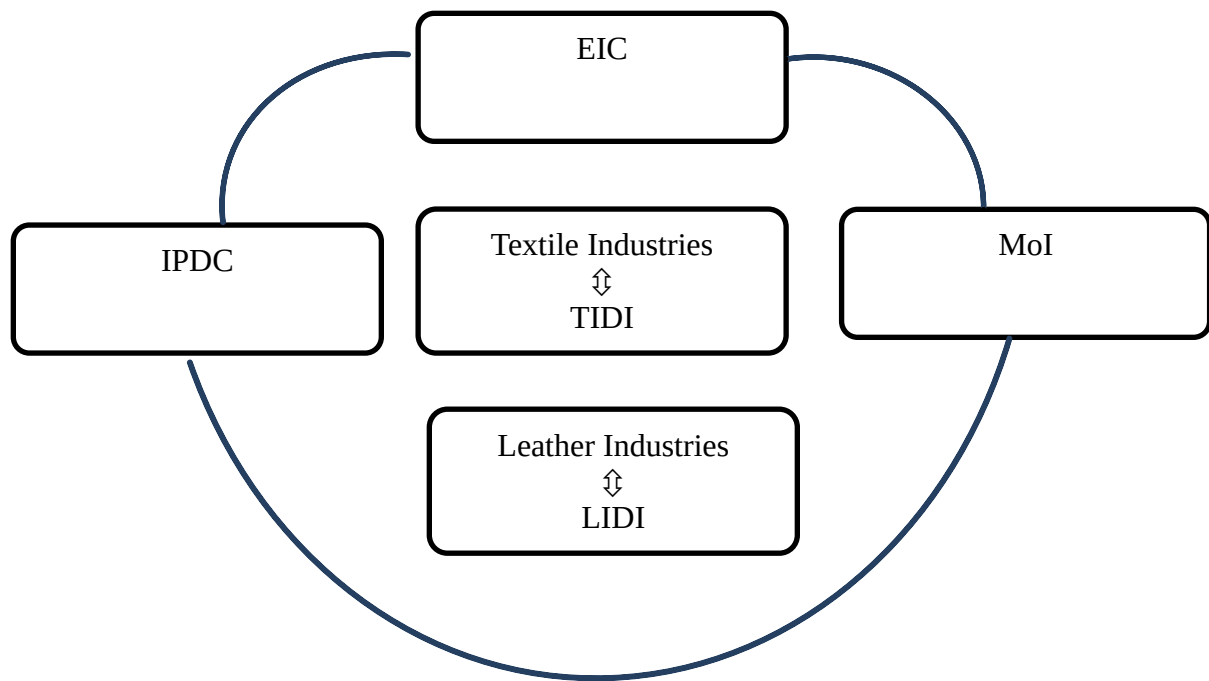
Figure 5: Industrial Parks & Supporting Institutions



Source: EIC (2017)

Generally, the institutional configuration is as depicted in the above diagram. However, it is to be remembered the focus of this study is on the lead agencies like EIC, IPDC and MoI and key support institutions: LIDI, TIDI.

Figure 6: The Textile and Leather Industries Lead and Support Institutional Arrangement



Source: EIC adapted by the author

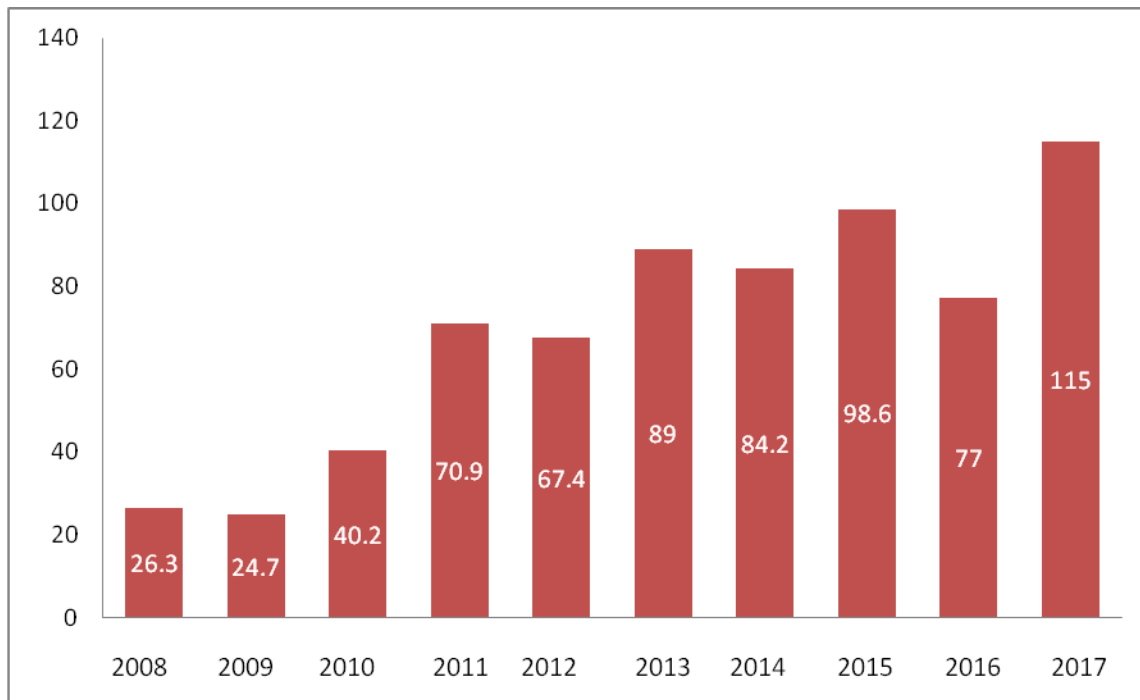
The nation's vision in pushing the manufacturing sector growth while giving favorable position for the so called the priority sector is to be 'the leading manufacturing hub in Africa.' The vision is said to be aggressive. The gaps in performance in the two GTP were discussed before. The discrepancy between plan and performance is still wide. However, from the base the industries were a decade ago, some reports suggest, the results so far are not discouraging as they seem. Others argue leaping from a very low base is easy, thus not performing according to plan is a serious failure in policy implementation.

For instance, the EIC report (2017) announced the Textile and Garment Industry has grown seven fold since 2008. Having access to sophisticated markets like that of USA, UK which is hoped to be capitalized on by government informants of this study. The argument that still persists is the seven fold growth should be compared to the base and

the plan. The market opportunity should be viewed according to the potential it has presented and exploited.

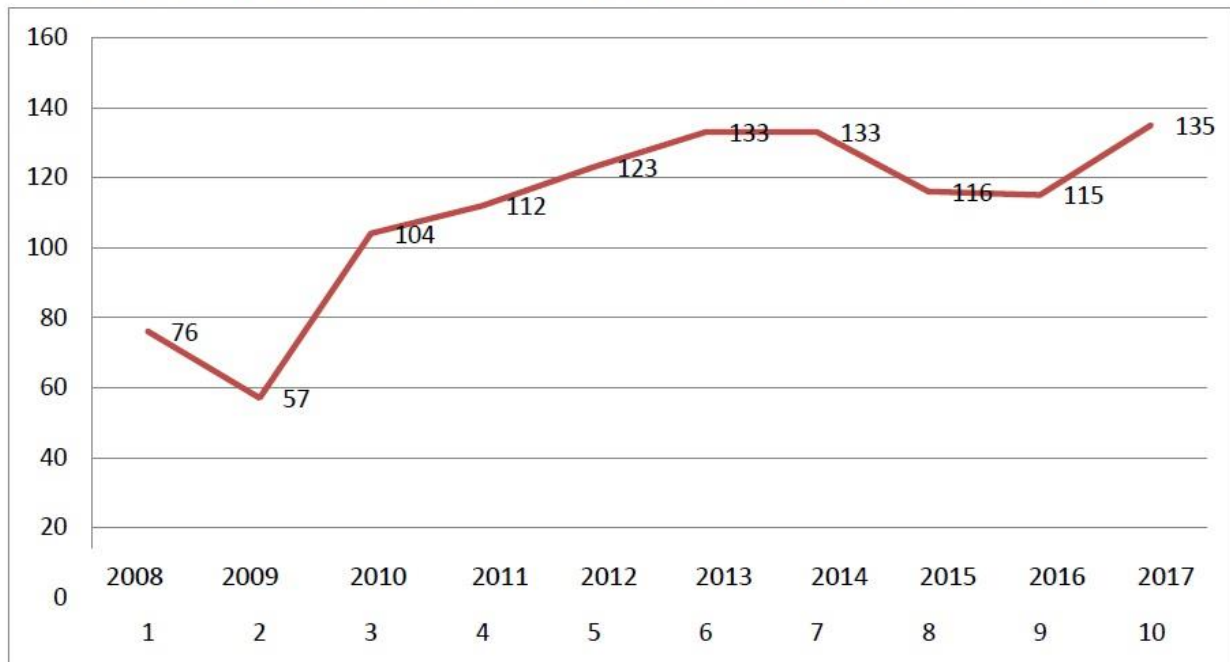
In these regard the two sectors are not paying dividend speaking just from the plan-performance perspective. The latest performances for the two sectors are as follows. Despite growing many folds looking it from the base, the performance is not more than 50% of the plan as indicated based on the report from MoI. Here we can have the two graphs that show export earning for a recent appreciation of facts in the industries.

Figure 7: Textile and Apparel Export in Ethiopia (2008-17) US \$ million



Source: EIC (2017)

Figure 9: Export Earning of Leather Industry in Ethiopia (2008-17) US \$ Million



Sources: EIC (2017)

Institutional dynamics have significant bearing on the successful implementations of the IDS. The success experience and the benchmarking efforts were made having this evidence central to the takeoff and catch-up endeavors. A question was forwarded to gauge the relationship they have with their respective support institution: LIDI and TIDI. All respondents recognized somehow active relationship does exist. When the question shifts to compliance and enforcement guidelines to measure export targets, 88% of them strongly disagreed and the remaining just disagreed; which shows the discrepancy between intention and implementation. The 100% confirmation of relationship with LIDI/TIDI given by the parks and the managers of the shades could be taken as a good sign at least to promote the policy orientation and goals. When it comes to ensuring compliance the picture is bleak.

Table 5: Perspectives on Institutional Support (Lead and Support Agencies)

Statements	Very strongly agree	Strongly agree	Neither agree nor disagree	Disagree	Strongly disagree
The government body that is following your export objectives have a compliance and enforcement guideline				25	95
The governments have capacity to support and follow up your firm in its export objectives	20	37	31	32	
Government works with you in planning and evaluating export targets	15	5	60	40	
Your feedbacks matter in making better the government policy implementation		20	4	96	

The government agencies involvement in planning, such objectives like export is viewed below average by all respondents. The capacity to follow up on key objectives and the support rendered is not regarded by any respondent above average.

All the informants agreed to the managers’ assessment to a various degree differing on degree of emphasis according to the institution they represent. Robust and effective institution could not happen without well-functioning soft and hard elements of an institution. The IDS did not bring the result its potential promised. The balanced role those new institutional economists’ advocates that should exist between government and private actors are present. There are massive investments by the government in building physical infrastructure, incentives, as most of informants from the bureaucracy admitted generally given without measuring impacts.

Generally, one significant conclusion in this regard is missing the long term impact of nurturing the absorptive capacity that could foster sustainable change. The degree of positive externalities and their nexus with IDS is contingent upon the absorption capacity

of the host countries. Scholars who have done empirical studies based on the successes of the developmental states in East and South East Asian countries, like Chalmers, Amsden and Wade reiterated the importance of the absorption capacity. Not only the capacity at the initial stage but in the continuous process of developing that capacity which is endogenous to the host nation's context. This implies not only the labor but also the managers, the bureaucracy and the remaining actively involved stakeholders propensity and capability to learn.

CHAPTER FIVE

5. Summary, Conclusion and Recommendation

5.1. Summary and Conclusion

At the end of 2002 Ethiopia adopted its own Industrial Development Strategy (IDS) for the first time in its history. The major design behind the strategy is supplementing the chief policy option which is still in play the Agricultural Development Led Industrialization (ADLI). The ADLI before the adoption of the IDS was evaluated to lack strong backward and forward linkages. Then, the IDS were adopted to enhance the linkage effects by unleashing the potential of the economy.

The IDS has been a controversial policy theoretically and practically. Theoretically the debate rests on two basic lines: 1st Industrial policy is inherently distortionary, which is to mean unfriendly to market forces, thus, flawed no matter how well intentioned it is 2nd, if it does have any merit at all, it cannot be implemented in poor countries, because they lack most of the necessary institutional capabilities. However, despite the skepticism industrial policy has become an uphill exercise by developing and the developed world alike. Ethiopia is one of the few poorest nations that have an industrial policy with clearly stipulated priority sectors.

IDS, simply defined is about what to do and what not to do in a given political, economic and institutional constraints. Choice in implementing IDS is about targeting certain sectors of the economy. In Ethiopia's case the strategy document discussed which sectors to promote and why. Textile and Garment; Leather and Leather related products among the sectors favored by the policy based on the resource endowment structure that the nation have in the two sectors. Furthermore, the two sectors are considered to be historically proved in many industrialization efforts across the globe for their adaptability to export orientation, low technology requirement, the labor intensity (absorption) capacity they do have. Generally, the IDS were adopted to mitigate problems related to market, coordination failures in allocating and optimally use national resources.

One of the ways to address the aforementioned problems is promoting FDI aggressively to benefit in full from its externalities. FDI promotion and the inflows of capital do not predict the quality of a given FDI; thus, capital formation alone does not indicate the policy success. The IDS is pursued to benefit from all positive externalities associated with its implementations. This study tried to look in to some of the positive externalities, namely; technology transfer, knowledge transfer, managerial know-how (Managerial practice) transfer, capacity building (institutional development), within the firm, industry and the economy wide dynamics.

Industrial policy in a poor country implies massive investment on physical infrastructure development, in which Ethiopia is favorably rated by many of development institutions. The industrial park developments are among such big government projects that are aimed at complementing the IDS, addressing the paradoxical issues of capital shortage and capital intensive infrastructural investment in a global political economy that push for trade openness and market friendly policies that benefits the interests of MNCs of the developed world.

Those scholars who observed the patterns of development globally, since the World War II were keen to point out a very curious observation. Those countries that made the transition to developed nation status fit into one of the three categories that are identified as drivers of their success. Those who made it to developed nation are oil rich countries, or small financial hubs and tax heavens, or countries that pushed “heavy” industrial policies. No remarkable success being achieved by nations who tried to play on the “level playing field”, which means competing with the developed world having underdeveloped industrial structure, infrastructure and institutional capacity. Ethiopia, as it was referred in the past decade is one of the fast growing non-oil producing country where agriculture is still dominant, and trying to link the agriculture, service and industry to ensure a robust, sustainable development.

Linking ADLI with the IDS is below the desired level. Empirical evidences across the globe where IDS exists justified.

Kickoff is not possible where the basics infrastructural issues are not dealt. Studies of the East Asian experience marked targeted intervention paid off. For instance, Lall (1996) documented interventionist policies paid off but the administrative capability of implementing intervention must be underscored. This study finds out the policy intension and the implementation capacity is wide apart but the importance of building the implementation capacity and institutional capacity unanimously noted by all the study participants.

Benchmarking the developmental states success needs a successful emulation of the principles not the organizational structures. Almost all proponents of IDS promoted the importance of state institutional capability of coordination and accommodation of various interests while addressing the need to obey national goals. In this regard, the study finds out; IDS, FDI and investment promotion are not keeping a coherent momentum beyond the initial facilitation phase; even though efforts to scale up coordination is tried at the highest level of the government, no information or documented is found at the lead agencies. Database management and access to harmonious information is seriously in short supply, therefore, it is not clear how policy learning is possible in this situation.

The manufacturing sector, particularly the two selected priority sectors below par performance in job creation and export performance is indicative of the lag in institutional development. It was discussed in this study nationalist and strong bureaucracy is the epicenter of successful developmental state. The study finds out it is not the case in Ethiopia. Bureaucrats of the lead agencies view their role as facilitators not as enforcers. It is to be remembered, the Japanese MITI and the “administrative council” and the “administrative guidance” experienced both in Japan and South Korea that accounted firms for result is not a coherent agenda in Ethiopia from firm to firm. So, the research finds out firm level successful benchmarking is a rare experience.

The research also finds out experts and managers alike view the nation’s incentive packages that are in place to promote FDI are generous, stayed more often longer than necessary and do not deliver the result stipulated in the policy objectives. The implication

no reciprocity relationship among government incentives, agencies, industry and firm level targets.

The research has also finds out, experts who are supposed to help policy makers do not know how long the IDS should stay and why. The phases that are discussed in the industrial development roadmap are passing with minimum attention and lead agency responsible bodies were found to have the minimum orientation on it.

As observed in the response from the managers, there is a deeply felt dissatisfaction over government institutions. Not only in promoting industrial development strategy to avoid obstacles for kick off, it has to go beyond facilitation. According to Barutigan (2016), an industrial policy should be designed and implemented to address gaps in technology, knowledge, skill, infrastructure and the fragmented value chain that results from all these. Ethiopia's IDS from the policy perspective has all the aforementioned issues to be addressed. Nonetheless, the study finding could be summed up as follows;

No matrices are in place;

No mandatory requirements on reporting on progresses of the externalities apart from the conventional export performance report.

Spillovers in technology, managerial practices and industry wide impacts are not recorded in organized manner.

Another key gap is the scant information on firm level. The information that is available tends to view firms heterogeneous and tend to generalize their conditions which made learning difficult. The industries are performing below plan, capacity utilization and firm level export performance should be addressed at every firm level. To do this there must be a reliable reporting standard and requirement.

One of the most obvious finding is the two GTPs missed on the quantitative targets. The implication is there was little evidence based learning, and hence policy making because the problems persists in a similar manner. The institutional arrangements clearly stipulated in the policy document are not helping to fix the problem as the aspiration states. The system is not working as a system. Efforts are fragmented and mostly short-term focused.

Firms are heterogeneous; learning could not be the same. The policy feedback process and mechanisms are negligent of this simple fact; thus, blanket judgment and prescription are the norms.

As new institutional economics dictate government can work to create a vibrant market in collaboration with the private sector through coordination and massive infrastructural investment. The Ethiopian government has invested a lot, including in the industrial parks and attracted FDIs. However, no conclusive generalization was found to suggest FDI driven firms are pushing the quality of investment and the investments impact on generating positive externalities. Industry targets fall behind, firms in the park are not doing remarkably either. Therefore, the firms' performance should be strictly followed, data driven policy recommendations should be generated, government experts and the institution they represent should be invested with the necessary power to effect and affect the policy cycle with the right mix of skill and knowledge.

5.1.1 Prospects

Looking the industries in retrospect, despite their start from a very low base, there are moves in the right direction: a growing adaptation of firms in the direction of export. Managers and government informants alike stated the plans (the GTPs) are too ambitious, unrealistic and finally frustrating. The plans and the performance reports, they argue painted a bleaker industry picture. They suggest in some improvements on key areas would speed up change. Improving marketing and the use of production capacity a few percentage more would shift the trend.

Things should have the chance to be better, if the industries build their capacity to use the market opportunities like that of AGOA. An improvement in government-industry relationship and problem solving in aligning performance to policy support would enhance the sectors transformation.

The strong perception shown by the managers which views an “administrative guidance” or government institutions support is a case in point. Promoting intra industry benchmarking and learning should be enforced, the growing firm level experience in the parks should be strongly directed and the result should also be documented to feed the policy cycle with the necessary information.

The domestic market is big. If learning and linkage with domestic SMEs is promoted, the linkage in the value chain would solve some of the supply side problem, which in turn will relate a more conducive environment for FDI driven, export oriented firms to do more business abroad.

5.2 Recommendations

The nation is following a developmental state model which some prefer to call it a “big push” implying massive investment in multiple areas to ensure a coordinated kick off that is expected in the early stage of industrialization. Coordination is the overriding *raison d'être* for the IDS. The results so far in the two GTP's showed much improvement is needed in the quality of the coordination. To produce the necessary result the coordination needs to be consistent, authorities should be delegated to relevant bodies and common understanding on solution sets should be created.

Measuring the quality of FDI needs evidence based assessment of outputs and outcomes that are related with FDI. To measure the nexus between the IDS and FDI and to have an empirical understanding if the policy is working in those sectors, the dearth of data should be solved. Hence, congruent national data that is sector specific should be made a top agenda in institution building and should be measured accordingly.

The IDS entails government incentive to certain industries. It is also noted targeted incentives are not for free. Investments are promoted in targeted sectors to create externalities than the direct outputs of the sectors indicate. However, benefiting from spillovers could not come without shared plans. Planning like in export targets should be made consistent. Incentives should be budgeted; mechanism should also be set to measure the result against the budget.

The lead agencies and the support institutions are not linked up well. Despite the different legal mandates stipulated for all of them. There is duplication of roles that is concentrated around a vague concept of facilitation. The recent shift in moving the export support

function from the support institutions (LIDI and TIDI) to EIC is a case in point. Government agencies policy objectives in promoting the industries should be clear and consistent.

“Administrative guidance” that was experienced in the East Asian experiences is absence. The institutions are benchmarked; the high level condition is benchmarked to shape the attitude of the bureaucracy and its support in „guiding“ policy implementation. The institutional elements that are supposed to be anchored with the national objectives admittedly have a wider discrepancy. Therefore, improving the professional mandate and policy orientation is imperative.

It is well argued developmental state model is meant to foster early stage industrialization and catch-up initiatives. Other way put, the effort should be timed, evaluated and updated. The roadmap for the sectors presented distinct phases, but the industries experience lack milestones. Putting milestones that is clear and open for adaptation should be addressed.

Firms are heterogeneous. Industrial averages may not explain well in promoting positive externalities. Devising standard procedures of benchmarking should be encouraged, and intra industry learning should be aggressively advocated to promote global competitiveness.

FDIs are attracted for the linkage effects they may produce. One such linkage is linking smaller domestic firms in the value chain. The data gathered and analyzed showed huge gap in the supply chain and little effort is being made in substituting imports that are currency draining and critical to the productivity of the sectors. Therefore, import substitution should get an equal attention with export promotion.

Managerial mobility is assumed to spur the industries competitiveness. The case that needs improvement is, the number of professionals that move within industries are not known exactly and no responsible agency to measure the mobility. A little experience was gained from the movement of skill from FDI driven firms to the domestic firms but not

pursued with the appropriate focus. Improving the focus will give handy information on one of the key asset-that is, professional leadership at industry and firm level.

Aside from improving quality and delivery of product and services the marketing knowledge, skill and the global market networking skill should get premium attention so as to improve the much sought after global competitiveness which indirectly implies the links of the export target and the foreign currency earning.

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Appendices

Questionnaires

Dear Respondent

This is an academic questionnaire which is undertaken to fulfill a masters thesis in public management and policy (MPMP). The data collection process is aimed at identifying foreign direct investment (FDI) resulted firm successes, challenges and prospects in achieving some selected policy goals stipulated for the sectors (Textile and leather industries). The study, beside its academic significance is hoped to inform practical improvement areas in the policy cycle. Therefore, your kind and objective response is tremendously helpful in getting insights that will provide feedback on the sectors present performance.

Please take note that your answer to this questionnaire is going to be used only for the research purpose and will appear in the final report in aggregate.

Section 1:- General Information section

1-The industry your company is engaged in (please tick as appropriate)

- i. Textile and garment ☐
- ii. Leather and related products ☐

2-Your current management position

- i. Top management ☐
- ii. Middle management ☐
- iii. Frontline (operation supervision) ☐

3-How long have you been working in your present employment

- i. Less than 1 year ☐
- ii. 1-2 year ☐
- iii. More than 3 years ☐

4-How long have you been in the industry you are working in now (total work experience in the sector)

- i. Less than 5 years
- ii. 5-10 years
- iii. 10-15 years
- iv. 15-20 years
- v. 20 years and above

5-Your academic qualification?

- i. First degree
- ii. Diploma
- iii. Second degree
- iv. Certificate
- v. PHD
- vi. Other _____

Section 2- General information on the situation of the firm.

6-Presently how many people are employed by your firm

Full time _____

Part time _____

7-What do you think the most important benefit of foreign investment according to your experience? (please rank them in order of importance)

- i. Capital formation
- ii. Technology transfer
- iii. Better pay & employment condition
- iv. Managerial knowledge and skill transfer
- v. Linkage effects within the industry and the general economy

8-How do you rate your firms relationship with local input suppliers.

Very strong	
Strong	
Satisfactory	
Weak	
Very weak	

9-Your firms export performance as per the management goals

Highly successfully (more than 90%)	
Successful (more than 75%)	
Moderately successful (60-74%)	
Satisfactory (50-60%)	
Poor (less than 50%)	

10- Do you have the chance to work with manager/managers of foreign origin

Yes ☐

No ☐

11- If yes, the most significant benefit you have got or getting is;

- i. Knowledge(technical)
- ii. Managerial skill
- iii. Technological know-how
- iv. Benefit packages (salary & others)
- v. If any other, please specify_____

12- Do you think your company have a management talent development plan that is helpful in managerial skill, knowledge transfer?

- i. Yes ☐
- ii. No ☐
- iii. Don't know ☐

13- Foreign management staffs are better skilled, and educated than their Ethiopian counter parts.

Strongly agree	
Agree	
Neutral	
Don't agree	
I don't know	

14- Do your company have a training policy that encourages knowledge, experience transfer _____

15- If yes, Foreigners that you are working with have the right attitude to transfer what they know?

Very high motivation	
High motivation	
Moderate	
Satisfactory	
Low	

16- Do you think Ethiopian managers are replacing expatriate managers and experts in your firm

There is noticeable replacement in management	
There is little or very little change in the management	
No change at all	
Don't know	

17- Do you see key Ethiopian technical staffs are replacing foreigners.

They are replacing them very well	
There is little and very little replacement	
No replacement	
Foreigners are increasing	
Don't know	

18- Do you think the economy the country is benefited from the FDI compared to the incentives if provides, are the in chives put to use properly?

Properly used	
Less properly used	
Mis used	
Abused	

19- How do you rate the relationship & support that you have with LIDI/TIDI

Very strong	
Strong	
Satisfactory	
Weak	
Very weak	

20- Write which government departments you are more frequently work (please rate according to the frequency)

a) ..

Ministry of Trade	
Ministry of industry	
Ministry of Authority	
Local authorities	
Lead agencies LIDI/TIDI	

b) If any others please specify _____

21- Does the government body that is following your export objectives have a compliance and enforcement guideline?

Yes ☐

No ☐

Is yes, do you know the guidelines formally?

i. We have them in writing

ii. We have access to them on the internet

iii. We knew them from our informal consultation with the government experts/officials

iv. We knew few things from our peer-to-peer discussion.

If any other, please state

22- Do you think the government have capacity to support and follow up your firm in its export objectives. Y☐ No ☐ if No please state why?

23- With regard to lab our (factory lab our) what are the key challenges (please rank them in the level of importance you find it proper)

i. Labour availability ☐

ii. labour productivity ☐

iii. working culture ☐

iv. salary & benefit package ☐

v. social factors ☐

24- The firms technology acquisition and application is competitive with global standards (Machines & other technologies) are:-

Very new	
Relatively latest	
Old model (more than ten years)	
Very old model (more than 20 years)	

25- Personnel turn over in key staff & management areas, in the past 3 years

Very high	
High	
Stable	
Low	
Very low	

26- Why export is not achieved as planned? (please rate them)

- i. Input problem
- ii. Market problem
- iii. Financial problem
- iv. Productivity
- v. Marketing skill

Other _____

27- Do you have the government participation in planning and evaluating export targets with the government.

- a) Yes
-

No ☐

b) If yes, how frequently

Monthly	
Quarterly	
Bi-annually	
Annually	

Do your feedbacks matter in making better the government policy implementation?

No ☐

Really ☐

often ☐

28- Please list the top there pressing challenges that you think needs the government policy attention.

1. _____
2. _____
3. _____

29- Please list the top there things (challenges) that you wise to be addressed by the firm's top management.

1. _____
2. _____
3. _____

30- What kind of support did you often get from LIOI/TIDI rate them

- i. Trade facilitation
- ii. Policy and regulation advice
- iii. Training
- iv. Networking with the policy makers, implementers
- v. Research insights

Any other, please specify

THANK YOU!

Interview question

These semi structured interview question are designed to have on the following thematic areas that are pertinent to the industrial policy, FDI and the manufacturing lead agencies, Textile & garment Industry Development (TIDI) and the Leather Industry Development Institute (LIDI) officials and experts.

- 1- Why it was important to set up these separate institutes in the first place?
- 2- How did you manage to set up the institution, the institutional arrangement?
- 3- What kind of experience and/or benchmarking did you use?
- 4- What is your working relationship with the firms/industry you are working with?
- 5- What are the key constraints that you frequently deal with?
- 6- What are the success factors with which we measure the industry's achievements?
- 7- Improvement areas in implementing the policy
- 8- In which area do you think we need to have reform?
- 9- What are the key incentive packages rendered to the firms in the industry?
 - Are the incentives achieving their objectives: What do they achieve?
 - What are those things that are not achieved?
- 10- What are the key institutional challenges?
- 11- Things to do
 - In the short run
 - Medium, &
 - Long run
- 12- Are we learning from other, from where we are learning the most, and why?
- 13- How do you evaluate the stockholders engagement? And the frequency?
- 14- The lessons drawn from the 1st GTP, How we are faring in the 2nd.
- 15- What kind of bureaucracy, the developmental state model seeks to promote industrialization?
- 16- How do you measure the success of an FDI apart from the capital flow?
 - Do you have measures to gauge growth in-
 - HR
 - Tech
 - Knowledge
 - Linkages
- 17- The way forward? Please share us the institutional insights?