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The Comparative Political Economy of Development in Ethiopia: The Cases of EPRDF and Prosperity Party Regimes

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Abstract

This study investigates the comparative political economy of development in Ethiopia under the Ethiopian People's Revolutionary Democratic Front (EPRDF) and the Prosperity Party (PP) regimes. Employing a qualitative comparative historical research design, the study draws on extensive primary and secondary data, such as policy documents, government reports, party manifestos, academic journal articles, books, etc., to analyze the ideological orientations, policy frameworks, institutional structures, and development strategies of the two regimes. Through a two-step analytical approach—case-specific examination followed by cross-regime comparative analysis—the research uncovers both significant divergences and enduring continuities in Ethiopia's developmental trajectory. The findings reveal that the EPRDF's developmental state model emphasized strong state intervention, centralized governance, and state-led industrialization, drawing heavily from East Asian experiences. While this approach delivered a double-digit economic growth and substantial infrastructure development, it was not able to bring about structural transformation. A combination of unintended macroeconomic imbalances, rising corruption, mounting debt, income inequality, increasing authoritarianism, limited political inclusivity, and growing ethnic tensions all ultimately converged, resulting in widespread unrest that led to the regime's collapse. In contrast, the PP-led regime has adopted a neoliberal model characterized by a more liberalized policy orientation, focusing on privatization, market liberalization, deregulation and foreign direct investment breaking away from the state-led developmental statist approach of the previous regime. However, the PP's reform agenda has faced challenges related to weak institutional capacity, persistent political instability, and unresolved federalist tensions. Based on these findings, the study recommends the adoption of a pragmatic hybrid development model that balances state guidance with market dynamism, gradual and sequenced liberalization, strengthened institutional capacity, inclusive political settlement, investment in human capital, and enhanced evidence-based policymaking. Ethiopia's developmental experience underscores the need for adaptive, context-sensitive strategies that address both political and economic dimensions of development within its unique socio-political context.

Keywords: Political Economy, Developmental State, Neoliberalism, EPRDF, PP, Ethiopia

Addis Ababa University

School of Graduate Studies

This is to certify that the Thesis prepared by Tsegayehu Agmasie entitled "**The Comparative Political Economy of Development in Ethiopia: The Cases of EPRDF and Prosperity Party**" and submitted in partial fulfillment of the requirements for the Degree of Master of Arts in Political science (Comparative Politics) is an original work and complies with the regulations of the university and meets the accepted standards with respect to originality and quality.

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List of Acronyms

ADLI	Agricultural Development-Led Industrialization
ADS	Authoritarian Developmental State
ANDM	Amhara National Democratic Movement
DDS	Democratic Developmental State
DS	Developmental State
ECA	Economic Commission for Africa
ECF	Extended Credit Facility
ECLA	Economic Commission for Latin America
EFF	Extended Fund Facility
EFFORT	Endowment Fund for the Rehabilitation of Tigray
EIC	Ethiopian Investment Commission
EMCRP	Expenditure Management and Control Reform Program
EPRDF	Ethiopian Peoples' Revolutionary Democracy
eWTP	Electric World Trade Platform
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FDRE	Federal Democratic Republic of Ethiopia
FFYDP	First Five Year Development Programme
Forex	Foreign Exchange
GDP	Gross Domestic Product
GERD	Grand Ethiopian Renaissance Dam
GoE	Government of Ethiopia
GTP	Growth and Transformation Plan
HGER	Homegrown Economic Reform
IDS	Industrial Development Policy
IFI	International Financial Institutions

IMF	International Monetary Fund
IPP	Independent Power Producers
ISI	Import Substitution Industrialization
LDC	Least Developed Country
MEFP	Memorandum of Economic and Financial Policies
METEC	Metals and Engineering Corporation
MICE	Meetings, Incentives, Conferences and Exhibitions
MITI	Ministry of International Trade and Industry (Japan's)
MLLT	Marxist-Leninist League of Tigray
MLSME	Medium and Large-Scale Manufacturing Enterprises
MoF	Ministry of Finance
MoFED	Ministry of Finance and Economic Development
NBE	National Bank of Ethiopia
NEP	New Economic Policy
NEPAD	New Partnership for African Development
NPC	National Planning Commission
OECD	Organization for Economic Co-operation and Development
OLA	Oromo Liberation Army
OLF	Oromo Liberation Front
ONLF	Ogaden National Liberation Movement
OPDO	Oromo People's Democratic Organization
PASDEP	Plan for Accelerated and Sustainable Development to End Poverty
PMAC	Provisional Military Administrative Council
PP	Prosperity Party
PPP	Public Private Partnership
PSI	Policy Study Institute

RDPS	Rural Development Policy and Strategy
SAP	Structural Adjustment Programs
SDPRP	Sustainable Development and Poverty Reduction Program
SEPDM	South Ethiopia Peoples' Democratic Movement
SFYDP	Second Five Year Development Plan
SNNPR	South Nations, Nationalities and Peoples Region
SOE	State Owned Enterprise
STEM	Science, Technology, Engineering and Mathematics
TFYDP	Third Five Year Development Plan
TMU	Technical Memorandum of Understanding
TPLF	Tigray People's Liberation Front
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
VAT	Value Added Tax
WB	World Bank

CHAPTER 1: INTRODUCTION

1.1. BACKGROUND

The issue of development has been a huge concern of human societies since antiquity. The origins of the development concept were often attributed to European societies, especially during the Enlightenment era. Nevertheless, it was after the end of World War II and the formation of the United Nations that development took on an international dimension. Since then, we have observed a continuous evolution in the understanding and status of development(Momeni and Shahbazi, 2019, p. 172). Following World War II, the concept has been associated with various academic domains, such as social development (Seers, 1969), human development (UNDP 1990), development as freedom (Sen, 1999), economic development (Todaro, 2000) and sustainable development (Adams, 2006).

Development is a multifaceted and complex phenomenon that permeates the socio-economic and political landscapes of nations worldwide (Oduro-Marfo,2019). Development, as a multifaceted and dynamic concept, has been at the center of extensive debates within academic, policy, and public spheres. These debates delve into various dimensions, ranging from the conception of development to its constituent elements and whether development is an end in itself or a means to an end. Moreover, discussions often revolve around the agency of development, questioning whether the state or the market should play a prime role. Additionally, theories of development explore diverse approaches to achieve progress and prosperity (Oduro-Marfo 2019; Horner, 2019, p. 416).

On the debate of its conception, the conception of development is inherently subjective, reflecting diverse perspectives influenced by historical, cultural, and ideological contexts. Modernization theory, for instance, posits that development entails the adoption of Western values and institutions. In contrast, dependency theory challenges this view, emphasizing the global economic system's structural inequalities. Amartya Sen's capability approach broadens the conception, focusing on enhancing individuals' capabilities and freedoms.

Traditionally the term ‘development’ has been synonymously used with ‘economic growth’ or GDP per capita income (World Bank, 1980). According to Sant’Ana (2008, p. 5), the ‘growth-based’ conception of development was founded on the notion that economic growth will lead to a better society overall, either through state-directed social policy or market-driven “trickle down” effects. Early researchers were primarily focused on measuring economic growth in terms of GDP growth and the development of physical infrastructure.

However, as Harris(2000, p.3) argues, the ‘economic concept’ of development was not binding as the benefits of economic growth did not necessarily trickle down to narrow the gap in income inequality between the rich and the poor, particularly in Africa. Hence the debate went beyond the conception of development through economic growth in 1950s and 1960s and has since come to assume different meanings both spatially and temporally. Its conception took a dynamic turn after 1950s and 1960s where in 1970s the focus of development was shifted from its economic-growth-based conception to the ‘basic needs’ approach conception of development where nutrition, health, shelter, sanitation, education and employment for the poor are embodied. The 1980s debt crisis created a disequilibrium in the center of gravity of development conception and a ‘structural adjustment’ conception of development gained momentum where the focus is liberalization of trade, elimination of government deficits and overvalued exchange rates as well as dismantling inefficient parastatal organizations (Harris, 2000, p. 3). This conception of development became at variance with the ‘basic needs’ approach to development and once again the conception of development has changed in 1990s to focus on ‘human centeredness’ and human development where general wellbeing of people (i.e living a long and healthy life, to be educated and to have access to resources needed for a decent standard of living) are met (UNDP, 1990). It’s only in 2000s that the conceptualization of development became multidimensional and takes into account social, cultural, environmental, and political elements that are essential for human well-being(Cobbinah et al., 2011, p. 147; Goulet,2000, p. 19).

Another area of debate that has been surfacing in the literature is whether development is an end in and of itself or a means to an end. Debates persist on whether development is a goal in itself or a means to achieve broader objectives. The instrumentalist view sees development as a means to improve people’s well-being and reduce poverty. On the other hand, the intrinsic value perspective argues that development is valuable for its own sake, emphasizing the importance of

cultural, social, and environmental aspects irrespective of their instrumental utility(Oduro-Marfo,2019). Also there are those such as Amarta Sen who believe that development serves as both a means and an end. In his famous book, 'Development As Freedom' he argues that "enhancement of human freedom is both the main objective and the primary means of development"(Sen,1999, p. 53). This suggests that development serves as a catalyst for human freedom, just as human freedom in turn fosters development.

The agency of development also remains a contentious issue, with divergent views on the roles of the state and the market. Proponents of state-led development argue that governments have a crucial role in guiding economic activities, redistributing wealth, and ensuring social welfare. In contrast, advocates for market-led development contend that free markets foster efficiency, innovation, and economic growth, ultimately leading to overall development (Oduro-Marfo,2019).

There are also debates on how to achieve development. Numerous theories offer insights into how development can be achieved. The *modernization theory*, prevalent in the mid-20th century, suggested that societies progress through stages of economic and social development. *Dependency theory* countered this, emphasizing global power imbalances and the role of external forces in perpetuating underdevelopment. Contemporary theories include sustainable development, which integrates economic, social, and environmental considerations, and post-development, which questions Western-centric development paradigms.(Cobbinah et al., 2011, p. 144)

Therefore, in this thesis, development in a society or socioeconomic system is conceptualized as progress or advancement in the overall state of the system which is a multidimensional process involving improvements in various aspects of human well-being, including economic prosperity, social equity, political participation, environmental sustainability, and cultural enrichment. It encompasses not only increases in income and material wealth but also improvements in education, healthcare, infrastructure, governance, and overall quality of life for individuals and communities.

"Development" being a complex term that has been widely used in the developing world still with little consensus on what it actually means and how it can be attained, this complexity is also applicable to Ethiopia, where each governing regime introduces its distinct 'development model' for the nation. Albeit with little noticeable yield in its development aspirations, Ethiopia, a nation with a complex history and diverse socio-economic challenges, has experienced a significant transformation in its political and economic landscape over the past century. It underwent significant political, social, and economic dynamism since the reign of Emperor Tewodros II. Each regime implemented distinct development projects and policies, shaping the nation's trajectory over time. As per Clapham(2017, p. 120), Ethiopia has maintained a developmental initiative since the era of Emperor Tewodros (1855–68), despite facing significant hurdles such as substantial physical and cultural challenges, inefficiencies in the state apparatus, and the prioritization of more immediate needs. Ever since, Ethiopia has been driven by a never-ending and insatiable thirst for modernization and development and every ruler or regime that comes to power claims itself as the true agent of development and its ascent to power would mean a promising start for the nation (Gutu Olana, 2021, p. 102). Since the first modernization and development initiative by Emperor Tewodros, Ethiopian rulers and regimes that followed sought a development model to mimic from countries such as Russia, Japan, United Kingdom and other western states, which phenomenon Clapham (2006, p. 138) refers to as the "politics of emulation".

The "politics of emulation" gained momentum in the imperial regime, and Ethiopia's development paradigms have since then shifted with changes in regime, with each new regime embracing its preferred model that it believes will best serve the country's modernization efforts. Throughout Ethiopia's modern history, its development model has experienced dynamic shifts across different regimes. From the imperial era to the present *Prosperity Party*, the country has undergone numerous changes along its development path. These shifts reflect Ethiopia's ongoing quest for the ideal model that will propel it into the realms of modernization. The pursuit of an "Ethiopian road to development" has been a longstanding challenge. Historically, Ethiopian rulers have looked to other nations as models for development. Initially, they emulated imperial Russia, followed by Japan, and later the United Kingdom and other Western states. However,

despite these efforts, none of these models has led to significant success in Ethiopia's development journey (Clapham, 2006, pp. 138-139).

Emperor Tewodros initiated Ethiopia's modernization efforts following the end of nearly ninety years of political instability, known as the "Zemene Mesafint" or the era of princes. His reign marked the consolidation of authority and the implementation of various reforms, including land reform, the establishment of a standing army, and the creation of a centralized political system. He also sought diplomatic ties with Western nations to support his modernization initiatives. Subsequent rulers like Emperor Yohannes IV and Emperor Menelik II continued modernization efforts, focusing on bolstering the military and expanding infrastructure (Paulos Gnogno, 1993; Bahiru Zewde, 2002).

During the imperial regime (before 1974), Ethiopia's development approach was influenced by Western models, particularly those from Europe and the United States. The government sought to modernize the country by emulating Western institutions, infrastructure, and economic systems. Emperor Haile Selassie I aimed to modernize the economy through industrialization and agricultural reforms, although criticism arose regarding his centralized power structure. This approach faced challenges due to Ethiopia's unique historical, cultural, and socioeconomic context. The Derg regime, which came to power after overthrowing Emperor Haile Selassie, followed a socialist model. Inspired by Marxist-Leninist ideology, the Derg nationalized industries, redistributed land, and implemented central planning. The focus was on self-reliance and reducing dependence on foreign aid. However, its tenure was marked by economic mismanagement and political oppression which eventually led to its demise in 1991 (Clapham, 2006, p. 147).

After the fall of the Derg, Ethiopia transitioned to a federal 'democratic' system. The Ethiopian People's Revolutionary Democratic Front (EPRDF) led the country and introduced the "Developmental State" model. This model emphasized state-led development, strategic planning, and investment in key sectors (e.g., agriculture, infrastructure, education). The EPRDF aimed to emulate the successful development experiences of Asian countries like South Korea and China (Clapham, 2017, p.123).

Currently, Ethiopia has embarked on new paths of political and economic reform. The developmental state government, previously led by the EPRDF, rebranded itself as the Prosperity Party in March 2018 in response to political unrest caused by Oromo and Amhara youth (The Reporter,2020). The current Prosperity Party-led government has introduced reforms and shifted away from the EPRDF's model. The focus is now on attracting foreign investment, privatization, and liberalizing the economy (World Bank, 2020). However, this shift has also led to tensions and debates about the best development path for Ethiopia.

In summary, Ethiopia's development paradigms have indeed shifted over time, reflecting changes in regime and external influences. Throughout this era, Ethiopia's development endeavors encountered both achievements and setbacks, with each regime imprinting a lasting influence on the nation's historical narrative and future trajectory. Each regime has embraced its preferred model, but the challenge remains to find an approach that balances modernization with Ethiopia's unique context.

1.2. Statement of the Problem

The EPRDF emerged as a victorious insurgent group in 1991, following a civil war. It consolidated power as an authoritarian party that dominated Ethiopia. Four ethnically defined parties came together to forge the EPRDF: the Tigray People's Liberation Front (TPLF), the Amhara National Democratic Movement (ANDM, later renamed the Amhara Democratic Party), the Oromo People's Democratic Organization (OPDO later renamed athe Oromo Democratic Party), and the Southern Ethiopian People's Democratic Movement (SEPDM). Despite their diversity, these parties were unified by the coalition's strong Executive Committee, which placed a focus on regional states that were defined by ethnicity (Lyons, 2021, p. 1051).

After 25 years of rule, the EPRDF encountered an acute crisis in 2016. Spontaneous demonstrations erupted, challenging the regime's control over significant areas of the country, which are the regions of Oromia and Amhara. Tensions within the EPRDF became evident, prompting the need for reform. The transition within Ethiopia was driven by internal dynamics within the ruling party. In 2018, a new prime minister from the Oromo wing of the coalition initiated a reform process to address these challenges (Ibid, p. 1052). In November 2019, the EPRDF ceased to exist, and the Prosperity Party (PP) was established as its successor. The PP

aimed to overcome the historical logics of the EPRDF while managing the contradictions between centralizing dynamics and demands for regional autonomy.
In summary, the EPRDF's origins, diverse coalition, and subsequent challenges led to the formation of the Prosperity Party, which sought to address Ethiopia's complex political landscape.

In the wake of the political transition from the Ethiopian People's Revolutionary Democratic Front (EPRDF) to the Prosperity Party (PP), there is a need to understand how the political economic policies and strategies of these two regimes shape the trajectory of development in Ethiopia. This study, therefore, seeks to conduct a comparative analysis of the political economy of development under the EPRDF and PP, focusing on development policies and strategies, institutions and governance. By examining the changes and continuities in development policies and the institutional framework between the two regimes, this research aims to augment knowledge and provide insights into the status of the political-economic development in Ethiopia. The comparative study aims to analyze and contrast the political economy of development models implemented by the two regimes, with a focus on understanding the divergent approaches, policy frameworks, and their respective impacts on economic growth, social equity, and institutional development. By examining the nuanced differences in governance structures, economic policies, and developmental strategies between the two regimes, this research intends to provide insights for policymakers and contribute to the scholarly discourse on political economy in transitional societies.

The Ethiopian People's Revolutionary Democratic Front (EPRDF) era, which spanned from 1991 to 2018, was characterized by a particular set of political and economic policies, including state control and strong party dominance. In contrast, the post-EPRDF era, marked by the rise of the Prosperity Party, has witnessed notable political shifts and economic reforms, including privatization and liberalization. This transition has raised critical questions about the impact of these changes on development policies and outcomes in Ethiopia. The problem at hand revolves around understanding and analyzing the extent to which these political and economic transitions in Ethiopia, from the EPRDF era to the post-EPRDF era, have influenced the country's development policies and outcomes.

Generally the existing literature shows limited comparative analyses between the EPRDF and PP regimes in their approach to development in light of the political economy settings of the two regimes. Even though there were regime-specific studies on the development approaches of the two regimes in isolation, as to the knowledge of this author, no comparative analyses were made before. Existing studies may focus more on individual regimes' economic policies and their outcomes, without directly comparing the underlying development models and their implications. To name a few, Abebe Semahagn(2018), Getasew Endalew(2022), Alemayehu Geda(2023), Tefera Negash(2020) and many others conducted researches and examined and analyzed the manifestations and implications of the adapted developmental state model during the EPRDF regime. Whereas, other than some studies by Alemayehu Geda(2019), Berhanu Abegaz(2019), Habtamu Girma(2021), and other than non-scholarly public opinions on popular sources(such as magazines, newspapers, blogs,) and social media rhetorics and debates, scholarly studies conducted on Prosperity Party's political-economic approach to development are still very limited.

These studies often lack a comprehensive comparative framework that juxtaposes the developmental models of the two regimes. While regime-specific studies provide valuable insights, the absence of comparative analyses limits our understanding of the broader trajectory of Ethiopia's development. Such a comparison could illuminate the changes and continuities of the development strategies, governance styles, and institutional framework between the EPRDF and the PP. By bridging this gap, this study made an effort to provide insights into the evolution of Ethiopia's modern political economy, assess the different development policy approaches by the two regimes, and offer lessons for future developmental strategies.

Interdisciplinary studies that integrate political science, economics, and development studies to provide a comprehensive analysis of the political economy of development of the two regimes in Ethiopia were also found to be lacking which necessitates this study. Even though one may find a dearth of studies conducted on the two regimes' development models (especially EPRDF's), these studies have been mostly approached from either the perspectives of politics of development or economics of development and not comprehensively analyzed from political economy approach. While studies conducted by Getasew Endalew(2022), Fana Gebresenbet(2014), Melakou Tegegn(2008), Assefa Fiseha(2019), Yeraswork Admassie, (2006),

Sisay Asefa, (2003),Sisay Asefa,(2001), (Zewdie, n.d.), Tewelde Gebresislassie, (2017), Weis, (2016), Ohno, (2009), and many others analyzed the political aspects of the development model followed by the EPRDF regime, studies by Berhanu Abegaz(2019), Dawit Senbet & Tadesse Wedajo(2022),Alemayehu Geda(2023), Amsalu Wolde et al., (2018),Dercon(2000) focused on the economics of development of the EPRDF regime. On the other hand, very little study has been done both on the politics and economics of the PP's development model. Addressing these gaps will contribute to a more nuanced understanding of the political economy of development models followed by the two regimes, and their implications for sustainable development outcomes in various socio-political contexts. Hence, this study aims to bridge these gaps, and is guided by the following research questions.

I. What ideological, policy, and institutional foundations defined the development strategies under the EPRDF and PP regimes?
II. How do the political economy frameworks of the EPRDF and post-EPRDF regimes compare in their approach to development?
III. To what extents have the political and economic reforms in Ethiopia during the post-EPRDF era impacted development policies compared to the EPRDF era? Or simply, what are the changes and continuities in the political economy of development policies while transitioning from EPRDF to PP?
IV. What lessons can be drawn from the comparative experiences of both regimes for designing an effective, inclusive, and sustainable development strategy for Ethiopia?

1.3. Objective of the study

1.3.1. General Objective

The comparative study aims to analyze and contrast the political economy of development models implemented by the two regimes, with a focus on understanding their respective policy approaches to economic growth, social equity, and institutional development. By examining the nuanced differences in governance structures, economic policies, and developmental strategies between the two regimes, this research seeks to identify their development policy divergences and convergences, key factors shaping the trajectory of development and offer insights for policymakers, scholars, and stakeholders invested in fostering sustainable economic progress and inclusive growth.

1.3.2. Specific Objectives are to:

I. Trace the ideological, policy, and institutional foundations defining the development strategies under the EPRDF and PP regimes.

II. Analyze and compare the political economy frameworks of the EPRDF and post-EPRDF regimes in Ethiopia.

III. Assess the changes and continuities in the political economy of development policies while transitioning from EPRDF to PP.

IV. Draw lessons from the comparative experiences of both regimes for designing an effective, inclusive, and sustainable development strategy for Ethiopia.

1.4. Hypothesis of the Study

In this study, it's hypothesized that the EPRDF-to-PP transition constitutes a decisive break in Ethiopia's political economy, replacing a state-centric developmental ideology with a neoliberal one. However, this change is expected to have merely traded one set of vulnerabilities for another, without overcoming the enduring obstacles of institutional incapacity, political fragmentation, and a stagnant economic structure.

1.5. Justification and Significance of the study

This research contributes to the existing body of knowledge on the political economy of development in Ethiopia by offering a comparative analysis of the EPRDF and post-EPRDF periods. Its findings offer critical insights into the distinct strengths and weaknesses of policy approaches, directly informing policymakers, researchers, investors and development practitioners to have informed knowledge about the political economy of the two regimes for their respective purposeful decisions.

1.6. Research Methodology

1.6.1. Research Design

This study employs a qualitative comparative historical design to systematically analyze the political economy of development under EPRDF-led (1991–2018) and PP-led (2018–present) regimes of Ethiopia. The design leverages the depth and breadth of existing secondary sources to conduct a cross-temporal comparison of policy frameworks, institutional structures, and

development outcomes. By examining historical trajectories and ideological shifts through archival evidence and other written sources, this approach facilitates a rigorous investigation of both the breaks and the enduring legacies between the two regimes while contextualizing findings within Ethiopia's broader political-economic evolution.

1.6.2. Data Collection:

Primary and Secondary sources of data such as policy documents, government reports, party manifestos, strategic plans, academic journal articles and publications, books, online commentaries on magazines from both the EPRDF and PP periods are collected and reviewed through a purposive sampling strategy to ensure comprehensiveness and relevance. Other primary data sources in the form of interviews and focus group discussions were deemed unnecessary given the exhaustive nature of available secondary sources that collectively provide, (1)comprehensive coverage in official policy documents, academic critiques, and institutional reports offer multi-perspective insights into both regimes' political economies, addressing all research objectives without informational gaps; (2) historical depth in archival materials enable longitudinal analysis of policy evolution beyond what contemporary interviews could capture; (3) analytical triangulation where convergence of academic literature, government publications, and international assessments provides robust validation, reducing the epistemic need for primary accounts.

1.6.3. Method of Analysis

The research employed a comparative historical analysis of the data obtained from primary and secondary sources to establish the findings and identify the similarities and differences in the political economy of development between the EPRDF and post-EPRDF periods. As analytical tool, the research also employed a political economy analysis (PEA) to capture the underlying political economic settings on which development policies are applied. According to the Department for International Development (DFID) (2009, p.4), *Political economy analysis (PEA*) is conceptualized as analytical tool which "*is concerned with the interaction of political and economic processes in a society: the distribution of power and wealth between different groups and individuals, and the processes that create, sustain and transform these relationships over time".*The analysis precedes with first a thorough case by case analysis of development

strategies for both regimes through the political economy lens. Then, based on the findings from these analyses, a cross-regime matrix compares EPRDF and PP across different comparing parameters such as political economy contexts, ideational orientations and development strategies to establish their departures and continuities.

1.7. Ethical Considerations

To the best of the researcher's ability, a genuine and conscious effort was made to conduct the study objectively, actively working to mitigate potential biases arising from the researcher's own positionality within the context of Ethiopian politics.

1.8. Limitations

Since the study uses many secondary sources, in addition to the primary data sources employed, the researcher's interpretations are inevitably dependent on how other authors have framed events, policies, successes, and failures. This may introduce interpretive bias or source bias, since other authors may reflect political interests, ideological positions, or temporal context in which they were written.

1.9. Organization of the study

The thesis is organized into seven chapters. Chapter One is about the introduction of the thesis research. Data and methodology which are specifying the data source and type, the research design and the type of analysis of the study by using appropriate analytical tools of analysis is dealt with in this section of the research paper. The next chapter, which is Chapter Two, is devoted for reviewing relevant theoretical literatures related to the study, while Chapter Three deals with the historical overview of the Ethiopian political economy of development. While Chapter four reviews the political economy of development of the EPRDF regime, Chapter Five does that of the post-EPRDF regime─the *Prosperty Party*. Chapter Six focuses on a comparative analysis and findings of the political economy of development of the two regimes in question. The final section, Chapter Seven concludes the thesis research with scholarly analysis of the research output generated from the comparative study.

Chapter 2: Literature Review

2.1. Major Theories of Development

The pursuit of development has been guided by a succession of dominant theories, each offering a distinct diagnosis of the problems facing poorer nations and prescribing a corresponding set of solutions. This section reviews the major theoretical paradigms that have shaped global development discourse and practice since the mid-20th century. The purpose of this review is not merely to catalogue these theories, but to critically examine their core assumptions, policy prescriptions, and historical context. By understanding the evolution of development thought, from the Eurocentric optimism of *Modernization theory* to the state-centric critiques of *Structuralism and Dependency*, and the market-fundamentalist ascendancy of *Neoliberalism*, we can better appreciate the ideological underpinnings of different development strategies.

This theoretical exploration is essential for a nuanced analysis of specific national experiences, such as Ethiopia's, which will be detailed in subsequent chapters. The "politics of emulation" observed in Ethiopian history, where successive regimes looked to models from Japan, the West, or the Soviet bloc, can be directly mapped onto these competing theoretical frameworks. Therefore, this review provides the necessary conceptual toolkit to dissect the ambitions, implementations, and ultimate shortcomings of Ethiopia's own development endeavors, revealing how global theories were translated, adapted, or resisted in a specific local context. Ultimately, tracing this theoretical trajectory illuminates the enduring and contentious questions at the heart of development: the role of the state versus the market, the influence of international structures, the definition of development itself, and the perpetual search for a path to sustainable and equitable development.

2.1.1. Modernization Theory –Development as a 'modernising project'

As we have seen in Chapter One, though development as a concept has its roots in the Enlightenment era, it was only in the wake of World War II, that it took an international dimension when the United States adopted a reconstruction strategy for several war-torn European nations, including Britain, France, Italy, and West Germany. Subsequently, this

strategy was improved to address the post-colonial developmental issues facing the nations of Global South(Regmi, 2018, pp. 325-326).

According to Alvin(1990) cited in Reyes (2001, p. 110), and (MWINUKA, 2015, p. 12), the inception of the modernization theory of development following World War II was favored by three significant historical events. First, the US emerged as a hegemonic power from World War II and assumed global leadership roles, while other western nations including Great Britain, France, and Germany were weakened by the war. Hence, the US felt the need to step up and reconstruct the war-torn Europe by an effort called Marshall Plan. Second, a united global communist movement was growing. The former Soviet Union expanded its sphere of influence to China and Korea in addition to Eastern Europe. Third, with the collapse of European colonial empires in Asia, Africa, and Latin America, a multitude of new countries emerged in the developing world.

These young nations, seeking to strengthen their economies and independence, looked for development strategies to guide them. The US launched this development strategy for post-World War II Europe and later for post-colonial countries in the Global South because of concern that these countries would align with the socialist camp (Haque, 1999; Reyes, 2001, p. 110).

The modernization theory, originating from the philosophical principles of the European Enlightenment, and based on a dualistic world view (i.e. traditional vs. modern) normatively dictates that, in order to develop, third world countries should follow the development path taken by western countries. It advocates for transforming their traditional and primitive values into more advanced and western ones; this process is commonly referred to as "modernization"(Regmi, 2018, p. 327; Reyes, 2001, p.111). It offers an elucidation and rationale for the progression of transitioning from traditional or less developed societies to modern societies. Some of its key advocates envisaged it as the progression towards societal, economic, and political structures akin to those observed in Western Europe and North America. Since its inception in the 1950s, modernization theory has been widely influential in the realm of development theories, with a primary focus on the evolution of pre-modern societies into modern (i.e., westernized) entities through processes involving economic advancement and shifts in social, political, and cultural aspects(Power, 2018, p. 1).

Its intellectual lineage can be traced back to the foundational works of prominent classical economists such as Adam Smith (1723–1790), David Ricardo (1792–1823), and John Stuart Mill (1806–1873), in addition to classical sociologists including Emile Durkheim (1858–1917), Max Weber (1864–1920), and Talcott Parsons (1902–1979). This paradigm encompasses aspects of modernization along with various interconnected ideologies such as evolutionism, functionalism, diffusionism, mercantilism, and neo/liberalism(Regmi, 2018, p. 327).

In regards to the conceptualization of development, the modernization theory equates development with economic growth, asserting that once economic growth is attained, its associated benefits will subsequently reach the impoverished segments of society(Regmi, 2018, p. 329; Sapkota & Tharu, 2016, p. 16; Willis, 2011, p. 47). In fact, this conception of development — that is, GDP growth serving as a good proxy of development lasted until 1970s(OECD,2018).

2.1.1.1. Fixed Stages, Unilinear Routes and One-size-fits-all approach to development

Modernization theory which was mainly championed by Walt Rostow, with his seminal work titled *The Stages of Economic Growth: A Non-Communist Manisfesto* published in 1960, contends that development is a kind of positive social change that happens in phases and follows a predetermined path that is relevant and applicable to all societies. Drawing from his examination of the historical trajectory of the United Kingdom, United States, and other developed economies, Rostow asserted that it is imperative for all societies to traverse five distinct phases of economic growth (Gwynne, 2009, p. 163). The top-down developmental pathways prescribed for developing nations within capitalist frameworks, as outlined by Rostow (1960), consist of the following stages: the 'Traditional society', the 'Preconditions for take-off', the 'Take-off,' the 'Drive to Maturity' and the 'Age of high mass consumption'. This suggests that traditional societies would advance through sequential phases, and emulate the historical trajectory followed by developed nations, representing the sole unilinear path for developmental advancements(Islam, 2018, p. 110).

Rostow(1960, p. 4&15) argued that:

> *It's possible to identify all societies, in their economic dimensions, as lying within one of the five categories: the traditional society, the preconditions for take-off, the take-off, the*

drive to maturity, and the age of high mass consumption … when independent modern nationhood is achieved, how should the national energies be disposed: in external aggression, to right old wrongs or to exploit newly created or perceived possibilities for enlarged national power; in completing and refining the political victory of the new national government over old regional interests ; or in modernizing the economy?

These five stages of economic growth by Rostow (1960) depict a linear progression beginning with traditional societies characterized by subsistence agriculture, low technological capacity, and minimal market activity, resulting in low per capita output. These transitions to the preconditions for take-off, where societies embrace modern science and technology, transform institutions, and shift from subsistence farming to market-oriented production, generating agricultural surpluses to fuel industrialization. The take-off stage marks a critical juncture: a business class emerges, labor migrates from agriculture to industry, traditional structures are abandoned, and self-sustaining economic growth accelerates. Next, the drive to maturity sees economies diversify into new industries, reduce import dependency through export expansion, raise living standards, and reduce poverty. Finally, the age of high mass consumption emerges, defined by affluent consumers purchasing durable goods and services, fulfillment of basic societal needs, and increased allocation of resources toward social welfare systems and security.

Rostow(1960) thus believed it was possible to classify countries along a spectrum of development, with every country moving from one discrete stage to the next. Aiding development thus meant facilitating the transition from one stage to the next. Modernization theory posited that all countries exist at various points along a similar developmental path. From the modernization theory perspective, every country fell somewhere along the same developmental spectrum. The challenge of post-world war development project was then, to figure out how to speed countries along the developmental path. But implicit in this theory was the suggestion that- even barring intervention-all countries would eventually move along the same developmental path. The United States, in other words, is the future of Somalia. It's just that Somalia is very far behind.

According to Rostow(1960) , Development requires substantial investment in capital. For the economies of LDCs to grow, the right conditions for such investment would have to be created. If aid is given or foreign direct investment occurs at stage 3, the economy needs to have reached at stage 2. If the stage 2 has been reached, then injections of investment may lead to rapid growth.

The modernization school holds that in order to achieve the targeted economic growth, which benefits every member of society once the saturation stage is reached, the developing nations of the global south, which are impoverished and vulnerable, must receive assistance in the form of foreign aid from the developed nations of the Global north (Regmi, 2018, p. 329). International Bretton Woods institutions such as the World Bank, International Monetary Fund and Rostow's brainchild USAID operated against this backdrop (Regmi, 2018, p. 329).

The Modernization theory asserts that in order for third world countries to transform from pre-modern, traditional societal structure to a more advanced modern societies like that of the Western countries, it's a necessity they adapt western technologies. According to Schumpeter(2003) cited in (Regmi, 2018, p. 329), sustained economic growth attained by industrialized nations were propelled by significant technological innovations, including the development of steam power, railroads, electricity, and vehicles. Traditional societies can use their backwardness to their own advantage as they don't have to go through the heavy costs of creating and inventing of those technologies like the developed countries. Rather they can adopt and use these technologies to their own benefit without incurring the heavy costs of time and research that the developed countries did to acquire these technologies(Nolan & Lenski, 1985, p. 341). One country that can be mentioned to have had the benefit of its "backwardness" is China as it embraced western technologies to propel its economic growth and modernization process since 1949(Gerschenkron 1962 cited in Lin, 2013, p. 260).

2.1.1.2. The diagnosis of development problems

The advocates of modernization theory, as highlighted by Inkeles (1969), Parsons (1964), and Rostow (1960), tend to overlook the impact of external factors on societal transformation, choosing instead to concentrate primarily on the internal dimensions of each societal configuration and beliefs such as political, religion and culture(Dastagiri & Bhavigna, 2023, p.

165; Islam, 2018, p. 111; Shareia, 2015, p. 78). Hence, according to this school, internal cultural transformations or adjustments within societal or political establishments are essential prerequisites for the advancement of third world nations into more developed states (Islam, 2018, 110; Shareia, 2015, p. 78). W.W. Rostow who stands out among the theorists of modernization, considered the expansion of capital formation to be the defining problem and located its main constraints in the domestic domain. He asserted that the defining development problem in the developing countries were low savings and investment(Tomkinson, 2019, p. 32).

2.1.1.3. The Agency of development

Generally, during the heydays of the Modernization school (i.e. 1950s and 1960s), other than the normative dictation that the Global South's development path should be in line with the development trajectory of Western nations, the role of the state as an agent of development and the need for market regulations was hardly questioned. (Harriss, 2013, p.13; Sapkota & Tharu, 2016). Leys (1996, p.7) in his book titled *The Rise and Fall of Development Theory* reinforced this argument:

> *The goal of development was growth: the agent of development was the state and the means of development were [national economic planning in the context of the macroeconomic policy instruments established at Bretton Woods]. These were the taken-for-granted presumptions of 'development theory' as it evolved from the 1950s onwards.*

2.1.2. Structuralism

The development thinkers and scholars of Latin America, known as structuralists, were one of the main groups to collide head on with modernization theory and the main stream development thinking in general. The structuralist approach to development theory and strategy came about from social scientists working in United Nations Economic Commission for Latin America (ECLA) established in Santiago, Chile in 1947 (Islam, 2018, p. 112; Kay, 2010, p. 25). As ECLA's primary focus was on identifying the main development impediments in Latin America and offering remedies, Latin American structuralism kind of came into being haphazardly, as the

forerunners were more concerned with practical issues than with academic pursuits (Kay,2010, p. 25).

According to Willis (2011, p. 74), Structuralists did not differ in their conceptualization of development as a goal from that of the modernization school, which maintained that economic growth, industrialization, urbanization, and other markers of modernity serve as emblems of development. Rather, their point of departure lies in the fact that development as a process in developing countries could not follow the path taken by the industrialized countries as pushed by Eurocentric theorists. The forerunners of this group questioned the Eurocentric and one-size-fits-all approach of modernist development prescribed for the Global South.

The then ECLA executive secretary Raul Prebisch challenged the development path by modernization and neoclassical economic theorists based on the experiences of Latin American countries, and argued that adhering to the free trade theories of modernization and neoclassical economic development would not improve the low level economic situation and living standards of poor countries in the Global South(Pandey, 2021, p. 66; Willis, 2011, p. 74). The explanation is that the global economic structure underpinning the development process of both the Global North and Global South is different (Willis, 2011, p. 74). Prebisch (1950, p. 33) refuted the prevalent economic orthodoxy at the time, which maintained that international free trade benefited all trading partners, but especially the less developed ones, on the basis of the principle of comparative advantages. He argued that the income gap between the developed and developing nations was not reduced through trade as claimed by the Eurocentrists, rather it widened. He arrived at a conclusion that the global trading system based on the free trade principles of the modernization theory was becoming an obstacle for the development of Latin American countries because of the uneven trade exchange scheme between the developed and undeveloped worlds. There were intensified import-export imbalances for the very reason that developing countries do not have a comparative advantage as they export primary goods with lower global market prices and import manufactured goods with higher prices (Willis, 2011, p. 78).

Through their classification of the world into core and periphery, which corresponds to the today's conventional designation of developed and less developed/developing countries

respectively, Structuralists emphasized the power asymmetry present in the nations of the world (Kay, 2017, p. 26.). Basing their analysis on the international division of labor and specialization, they believed that the global economic structure is dual in nature. The production structure in the core is characterized by high labor productivity, strong labor unions and properly functioning markets. Whereas the countries in the periphery are those countries which have an inefficient agriculture, malfunctioning markets with small, relatively productive primary export sector often owned by foreign capital and loosely connected to the rest of the economy. This duality, they believed, is the result of the exploitative nature of the socio-economic relations that the core and peripheral countries had due to colonialism. This school argues that market flaws, lags in technological transfers, and pricing mechanisms favor the center at the expense of the periphery (Saad-Filho, 2005, p. 93; Mohammed, 2013, p. 3; Kay, 2017, p. 29).

The main entry point of analysis for Structuralists was 'Terms of Trade' which is by definition the ratio of export prices to import prices of one country (Kay, 2017, p. 31). In separate studies on First-Third world trade, Raul Prebisch(1950) and Hans Singer(1950) reached at similar conclusions and established what is known to be 'The Prebisch-Singer Hypothesis' in which, bringing historical evidence into their analysis, they ascertained that the long-term patterns in the terms of trade between Latin America (the periphery) and its main trading partners, the US and Europe (the core) were declining. Given that Latin America's predominant exports were primary goods (such as minerals and agricultural products), and manufactured goods made up the majority of its imports, they found out that the terms of trade were deteriorating against the Latin American countries and in favor of the core countries (Engel, 2010, pp. 8-9; Kay, 2017, p. 31). They asserted that though industrialization is important in causing capital formation which pushes the catching up process of developing countries along the development ladder, it cannot happen with the export of primary products. This is because the prices in the industrialized countries increase more rapidly than the prices of primary product exports in the periphery. To maintain their trade balances, that is to finance their imports of manufactured consumer goods and capital goods, the countries in the periphery should increase their exports of primary products infinitely, which is impossible. Furthermore, primary products — especially agricultural — have low income elasticity of demand in the domestic market (i.e. their prices do not increase with the rise in income) as opposed to the demand in the imported goods. Hence, they concluded that any more reliance on the exports of primary goods by third world countries

based on their comparative advantage would further push them to sink into poverty. The only way out for them is to reform the economic structure (Engel, 2010, pp. 8-9).

Inspired by Keynes, Structuralists advocated for the governments of the countries in the periphery to intervene and reform the structure of the economic production. Based on their assumptions that the markets in developing countries do not allocate resources properly, as claimed by the economic orthodoxy, they believed the government in these countries has a role to play. Structuralists slightly differed from Keynesianism in terms of their advocacy for government intervention as they believed the state should have long term engagements to structure the economy rather than the short term economic stabilizing role it should have as commended by Keynes(Mohammad,2013, p. 3;Kay,2017). Therefore, the role of the state, according to Structuralists, is to break away the vicious circle of poverty by engaging in capitalist development in the periphery itself through Import Substitution Industrialization (ISI). The government should intervene in protecting the national industries from competitive foreign firms and increase the demand for domestically manufactured goods through tariff barriers, import quotas, overvaluation of the currencies (Willis, 2011, p. 75).

In general, the ECLA Structuralists did not oppose capitalism; instead, they contended that underdevelopment is caused by the periphery's lack of capitalist development and its confinement to the primary export sector, and that the countries' underdevelopment can be remedied by diverging from the Eucentrist path of development and establishing a new international economic order through adopting the Import Substitution Industrialization (ISI) policies.

2.1.3. Dependency Theory

Another development theory to have emerged in Latin America in the 1960s was 'Dependency Theory'. It originated in Latin America in response to the perceived failures of the ECLA Structuralist's reformist approach of capitalist development in the periphery through ISI policies(Islam, 2018;Kay,2017;Mohammed,2013). Dependency theory was born out of the arguments of Structuralism and the US Monopoly Capital School or also known by the name Neo-Marxism (Islam, 2018, p. 111;Kay,2017;Mohammed,2013, p. 5). 'Monopoly Capitalism' which was developed by Paul Baran and Paul Sweezy in the 1960s was a theory which

challenged the argument forwarded by classical Marxists such as Lenin, that imperialism is the highest stage of capitalism.

Despite agreeing with the Structuralists' underlying premises, the proponents of dependency theory, or d*ependistas,* as they were called, were not satisfied with the solutions they forwarded. Critiquing the Structuralist school and benefiting from the assumptions of the Monopoly Capital School, the forerunners of dependency theories such as André Gunder Frank, R M Marini, Fernando Henrique Cardoso, Theotonio dos Santos, Samir Amin, Immanuel Wallerstein etc., challenged the Eurocentric approach of modernist development prescribed for the Global South(Mohammed,2013, p. 2). The central argument of dependency theorists was that the functioning of the capitalist system was the reason why Latin American nations were in states of "underdevelopment"(Willis,2011, p. 77).

André Gunder Frank(1966, p.21) who was considered to be the father of Dependency school, came up with a historical analysis of dependence and exploitation of the periphery by the core and concluded that development and underdevelopment were the two sides of the same coin. That is, in order for the core to develop the periphery must undergo underdevelopment. Building on neo-Marxist theories, he demonstrated the exploitation chains that extended from peasants to local landowners, local merchants, regional elites, national elites, and, finally, western capitalists. He contended that landowners were not paying peasants the full value of their labors, and this was being transferred as a surplus from landlords to western capitalists, which ultimately caused the 'development of underdevelopment' in Third world countries (Engel, 2010, pp. 9-10;Willis,2011, p. 77).

Dependistas assessed and critiqued the development initiatives(ISI) of ECLA Structuralists for not bringing significant positive impact on the lives of the poor people in Latin American countries other than satisfying the needs of some elites by producing luxurious industrial products and thereby enhancing peripheral capitalism (Regmi,2018, p. 330). For Frank and *dependistas* in general, underdevelopment in the Satellites/Peripheries is not a stage to be passed, as argued by Eurocentrists, but rather the product of exploitative capitalism, in which resources are extracted from the periphery to the Metropolitean/Core (Engel,2010, pp. 9-10;Willis,2011, p. 78; Regmi,2018, pp. 330-332).

Underdeveloped countries did not experience the trickledown effect due to the capitalist system's inability to distribute wealth evenly, as claimed by mainstream development thinking. *Dependistas* and other neo-Marxist scholars argue that Third world countries are 'much better off in their traditional ways of life, by comparison with what foreign capital is pushing and pulling them into' (Baran, 1973, p. 330). According to Frank (1969), cited in Regmi(2018, p. 331), countries with less significant economic ties with the West were in better position. Japan, for example, was able to develop because it was not a satellite to any metropolis. In a similar fashion, Latin America was achieving a significant economic progress when industrialized countries were preoccupied with World Wars I&II.

While all the dependency theorists agree on the exogenous factors being the cause of under development in Latin America, their proposed solutions to this problem differed. In accordance with the propositions they came up with, two distinctions can be made — the 'reformists' and the 'Marxists'(Kay,2017, p. 77). These two strands, in general, agreed on the fact that the development process of developing countries can only be understood in relation to the developed countries. From a reformist perspective, Sunkel(1972, p. 520) argued that *"Development and underdevelopment. . . are simultaneous processes: the two faces of the historical evolution of capitalism"*. Whereas, Frank (1966, p. 18) from a Marxist strand underscored that "*Contemporary underdevelopment is in large part the historical product of past and continuing economic and other relations between the satellite underdeveloped and the now developed metropolitan countries*".

When we see the remedies the two strands proposed, the reformists who were more like ECLA Structuralists, advocated for the reform of the capitalist trading system through significant state intervention, and creating new international economic order. Their beliefs are a continuation of the ECLA structuralist school, reformulating the ECLA's developmentalist perspective in response to the dilemma of import-substitution industrialization. Whereas, the Marxists(or more accurately the neo-Marxists) were of the radical view that the only solution was the overthrowal of the capitalist system and resorting to socialist orientation. One of the most vociferous advocates of Marxist was Frank who advocated for the wholesale de-linking of the periphery from the core countries as he argued that, under capitalism, the peripheral countries would

always be exploited and marginalized, and could not escape the vicious circle of underdevelopment Kay,2017, p. 77;Willis,2011, p. 78).

The World Systems Theory, another variant of the dependenccy theory, has many characteristics with the *dependistas* but differs from their static view of the world as core and periphery by dividing all countries into core, periphery, and semi-periphery. Unlike the *dependistas* who maintained that countries in the core and periphery invariably remain the same without changing categories, The World Systems Theory, developed by Immanuel Wallerstein (1974) contended that this was not the case. It argued that over time countries were able to shift in and out of their categories (Willis, 2011, pp. 80-81). The addition of the 'semi-periphery' by Wallerstein was a reflection of the global events in the late 1960s and early 1970s. In their static dualist view of the world as core and periphery, while dependency theorists maintained that countries in the periphery were doomed to be exploited and marginalized indefinitely, some of these countries were experiencing industrialization rendering their thesis futile. These newly industrialized countries were the 'Asian Tigers' of South Korea, Hong Kong, Singapore and Taiwan, and as well as Latin American countries such as Brazil(Willis,2011, p. 80). According to Wallerstein(1974) cited in Regmi (2018, p. 332), core countries are advanced economies, such as North America and Western Europe, with a focus on manufacturing products whose political and military might allow them to maintain unequal exchange arrangements that benefit them. Periphery countries, on the other hand, include exploited regions with the poorest military and political capabilities linked to the global capitalist system by selling raw materials and low-wage goods to core countries. Semi-periphery nations, located between the core and periphery, are progressively transitioning to industrialization. Despite being exploited by the core, they gain by exploiting countries in the periphery. Hence all countries are caught up in the global capitalist system whether they like it or not (Regmi, 2018, p. 332).

Wallerstein(1974) also showed how countries from the core were pushed into the semi-periphery by tracing the origins of the global capitalist system back to the fifteenth and sixteenth centuries, when European economic and political influence expanded beyond its core regions into the rest of the world. Up until the industrial revolution in the eighteenth century, European powers competed for dominance in which some countries like Spain descended from their prominence and being pushed to the semi periphery, while Northwest European countries ascended to the

core. He also showed that, following the industrial revolution, the core expanded to include most of Europe and the United States; subsequently, some countries on the periphery ascended to the semi-periphery, while Africa and Asia grew as peripherals (Willis, 2011, p. 81). According to Klak(2002, pp. 104-105), in the 21st century, the core countries are Western Europe, the United States and Canada, Australia, New Zealand, and Japan. The semi-periphery encompasses Latin America, Eastern Europe, Russia, China, India, and several Southeast Asian countries. Only South Africa, Egypt, and Tunisia were able to upgrade themselves to a semi-peripheral status in Africa.

2.1.4. Neolibaral Development theory

2.1.4.1. Concept and Ascendency of Neoliberalism

Neoliberalism as a concept is often described as the ideology and 'religion' of the market that promotes private interests with extreme abhorrence to state intervention in the affairs of the economy (Duménil and Lévy, 2005, p. 10). It effectively combined neoclassical economic theories with a liberal, individualistic view of political freedom. It promoted the idea that free markets not only ensure efficient economic outcomes but also serve as the optimal environment for securing individual liberties. This fusion emphasized minimal state interference, arguing that personal freedom thrives best within a competitive market-driven society (Munck, 2021, p. 12).

Though Neoliberalism, as a system of thought can be traced back to the writings of Friedrich Hayek during World War II and popularized by Milton Friedman in the 1970s, it's in the 1980s that it emerged as a dominant ideology advocating market supremacy, minimal state intervention, and the prioritization of private interests (Munck, 2021). According to Duménil and Lévy (2005, p. 10), Neoliberalism emerged as 'a new sheriff in town' with "new rules of functioning of capitalism, which affect the centre, the periphery, and the relationship between the two". It is essentially a framework designed to enhance the mechanisms of capitalism to maximize the very goal that capitalism always had, *accumulation*. It represents a shift from the old Keynesian model to new functionings and reconfigurations of capitalism. This shift was driven by the "structural crisis" of capitalism in the 1970s, which rendered previous Keynesian policies and institutions ineffective for capital accumulation (Duménil and Lévy, 2005, p. 12).

Despite numerous changes throughout the 1970s, 1979 is widely seen as the decisive turning point for the rise of neoliberalism. According to Duménil and Lévy (2005, pp. 10-11), U.S. trade deficits in the 1960s were driven by extensive post-WWII reconstruction in Europe and Japan, resulting in an outflow of dollars and a devaluation of the dollar against gold. By the 1970s, the situation worsened due to declining profit rates after the Vietnam War defeat and the OPEC oil shocks, leading to a structural crisis with stagnant growth, rising unemployment, and persistent inflation.The Keynesian framework, which had once saved capitalism from the 1930s Great Depression, proved inadequate in addressing these new economic challenges (Palley, 2005, p. 21).

The economic turmoil of the 1970s, characterized by declining profit rates, trade deficits, and the oil shocks, exposed the limitations of Keynesian policies, which were unable to resolve stagnation, rising unemployment, and inflation. The turning point came in 1979 when the Federal Reserve, led by Paul Volcker, drastically raised interest rates to combat inflation, a shift referred to as "the 1979 coup". This move came as the U.S. contended with increasing competition from Europe and Japan. This decisive move towards 'monetarist' policies, alongside the end of the dollar-gold convertibility in 1971, the introduction of floating exchange rates and the liberalization of capital flows, signaled the rise of neoliberalism, emphasizing deregulation, labor market flexibility, and the reduction of state welfare (Duménil and Lévy, 2005, p. 10).

It was argued by Duménil and Lévy (2005) that while the social and economic disruptions of the 1960s and 1970s paved the way for the rise of neoliberalism, it was ultimately Keynesianism's internal weaknesses and inability to counter the free-market narrative that accelerated its decline. Even at its peak, Keynesianism faced strong conservative opposition in the U.S., dating back to the 'New Deal'[1] era, where conservatives resisted Social Security and later undermined unions with the Taft-Hartley Act[2] of 1947. Keynesianism suffered also from intellectual divisions.

[1] The *New Deal* was a series of economic and social reforms implemented by President Franklin D. Roosevelt in response to the Great Depression, aimed at providing relief, recovery, and reform in the United States.

[2] *The Taft-Hartley Act*, officially known as the Labor Management Relations Act of 1947, was enacted to restrict the activities and power of labor unions in the United States, addressing concerns about union practices and communist influence.

Keynes's acceptance of *marginal productivity theory*[3] undermined support for labor-market interventions, framing unions as market distortions. Neo-Keynesians, particularly in the U.S., argued that wage and price rigidities caused unemployment, supporting policies to enhance wage flexibility. In contrast, post-Keynesians saw unemployment as driven by demand shortages and warned that price flexibility could worsen debt burdens. These divisions weakened Keynesianism, enabling neoliberal critiques that called for market-driven reforms over state interventions (Palley, 2005, p. 21).

Neoliberalism, according to Palley (2005, p. 20), rests on two central theories: income distribution and employment determination. It posits that labor and capital are compensated based on their market value, driven by supply and demand. Moreover, it argues that free markets efficiently allocate resources, including labor, by adjusting prices to match demand, thereby preventing waste. This market-centric view contrasted sharply with the Keynesian framework that prevailed between 1945 and 1980, which held that economic stability depended on stimulating aggregate demand to prevent downturns. However, internal disagreements among Keynesians regarding income distribution and market interventions further opened the door for neoliberal critiques that emphasized the efficiency of market-led growth (Palley, 2005, p. 20).

Ultimately, the rise of neoliberalism represented not just a shift in economic policies but a broader reconfiguration of the capitalist order, prioritizing deregulation, privatization, and the reassertion of capital's dominance over social welfare policies. This transformation was rooted in the failures of the Keynesian approach to address the structural crises of the 1970s, thereby enabling a resurgence of market-driven ideologies that reshaped global economic policies in the following decades (Palley, 2005, p. 21).

2.1.4.2. Neoliberal development project in the Global South: The Washington and Post-Washington Consensuses

Much of the post-war development agenda pushed by the Global North and Multilateral agencies (such as WB and IMF) to be implemented in the Global South was to be realized based on variations of Keynesian approaches (Willis, 2011, p. 52). During this period, development was

[3] *Marginal productivity theory* explains how the income of factors of production is determined by their marginal contributions to output in a competitive market.

simply equated with economic policies led and directed by the state. The strategy relied on national government intervention and international aid. This Western initiative to modernize the Global South through state-driven industrialization and foreign aid, focusing on channeling resources and investments into the most productive sectors to generate a "big push" towards economic take-off, faced intense criticism from neoliberal advocates (Hill et al,2016; Willis, 2011, p. 49).

Building on the classical economic theories of Adam Smith, David Ricardo and others, Neoliberal development theorists on developing countries like Balassa (1971, 1981) and Lal (1983) challenged the extensive involvement of the state in economic activities. Leading proponents, including Bauer(1981), Lal(1983) and Little et al.(1970), argued that underdevelopment arises from inefficient resource allocation caused by flawed pricing policies and excessive state intervention by overly active governments in developing countries. These neoliberals argued that enabling competitive free markets, privatizing state enterprises, encouraging free trade and export expansion, attracting investment from developed nations, and eliminating excessive regulations and price distortions in factor, product, and financial markets will drive greater economic efficiency and growth (Vere, 2015, p. 128).

Contrary to the dependency theorists, these neoliberal counterrevolutionaries argued that the underdevelopment of the Third World is not caused by exploitation from the First World or international agencies, but by excessive state intervention, corruption, inefficiency, and lack of economic incentives within developing nations. They believe the solution is not reforming the international economic system, restructuring dual economies, increasing foreign aid, controlling population growth, or improving development planning. Instead, they advocate for promoting free markets and laissez-faire economics, supported by permissive governments that allow the "magic of the marketplace" and the "invisible hand" of market prices to drive resource allocation and stimulate growth (Vere, 2015, p. 128).

This shift in development theorizing was dubbed 'The Neoliberal Counter-revolution' by Toye(1993). According to Toye (1993, p. 70), the excessive expansion of the public sector; the disproportionate focus of economic policies on investing in physical capital, like infrastructure, instead of human capital, such as education and health; the extensive use of economic controls,

including tariffs, subsidies, and quotas, which led to price distortions, are the three main policy stances that this counter-revolution sought to challenge.

Already established in the 1980s as orthodoxy in developed countries, these theoretical arguments about advancing development in Third World nations were formalized into a set of economic policy prescriptions dubbed as *The Washington Consensus*. The term "Washington Consensus", coined by John Williamson (1993), refers to a set of 10 axiomatic principles, often referred to as 'the ten commandments', broadly embraced by scholars and practitioners concerned with economic growth in developing countries, assuming alignment with certain shared values(Gore, 2000, p. 2; Hill et al,2016, p. 132-133).

The Washington Consensus got its name from a 1989 meeting in Washington, D.C., involving the World Bank, IMF, and U.S. Treasury under the Brady Plan to tackle the 1980s Latin American debt crisis. This crisis began in 1982 when many Latin American countries, strained by high interest rates and low commodity prices, defaulted on large commercial bank loans (Marnagos, 2009, p. 197-198). While many viewed the Washington Consensus as a neoliberal manifesto, its creator, John Williamson, clarified that it was not meant as a universal policy prescription but as a positive account of what Washington agreed should be done in Latin America. This is what Williamson (2004, p. 33) in his own words asserted:

> *The Washington Consensus as I originally formulated it was not written as a policy prescription for development [in general]: it was a list of policies that I claimed was widely held in Washington to be widely desirable in Latin America….. Of course, development was the main objective of the countries in question; the point is that my agenda excluded policies even if I believed they would promote development unless I was also convinced that they commanded a consensus. But it has been widely interpreted—and by sympathetic observers like Fischer (2003), not just by critics—as offering a policy prescription (and as being of wider application than in Latin America).*

Although Williamson, who coined the term, sought to distance the Washington Consensus from being labeled as a neoliberal manifesto, it was often linked, mostly by his critics, to the economic policies of Ronald Reagan and Margaret Thatcher, inspired by Friedrich Hayek and Milton Friedman (Marnagos, 2009, p. 202). Post-Keynesian economists, like Davidson (2007), criticize the Washington Consensus, noting that it means different things to different people, even to

Williamson at times. The core idea, however, is consistent: "liberalize, deregulate, and privatize", which Davidson argues is primarily pursued by the IMF to benefit corporate and political Washington. He summarizes the consensus into three goals: macroeconomic discipline, a market economy, and openness to the world.

The Washington Consensus came to be regarded as a neoliberal manifesto, taking on an almost religious aura (Broad and Cavanagh, 1999, p. 80). Its "high priests"—the U.S. Treasury Department, IMF, and World Bank—were seen as operating from the sacred temple of Washington. Adherents to this ideology spread its message through a mix of simplicity, fervent advocacy, and coercion. The high priests and their converts, often economic advisors, treated the consensus as unquestionable, leaving little room for debate. As Cross and Strachan (2001, p.197) noted, "*When propositions such as those contained in the Washington Consensus are not treated as fallible and open to qualification and revision, they become pillars of dogma rather than of wisdom*." Over time, the consensus came to embody an extreme, doctrinaire belief that markets could solve all problems universally. This one-size-fits-all approach, as Stiglitz (2002, p.34) described, assumed its principles were valid across all contexts, disregarding local complexities.

According to Marnagos (2009, pp. 201-203), the original policy prescriptions of the Washington Consensus, albeit slightly modified, have been enforced on developing countries by the so-called high priests of the neoliberal manifesto. Marnagos contrasted Williamson's original Washington Consensus with its derivative, often referred to as the neoliberal manifesto, highlighting the differences in their interpretation and application.

The original Washington consensus recommendations intended to foster economic growth and development, particularly in Latin America, but widely debated in their implementation and outcomes, as outlined by Williamson (2004), are:

1. *Imposition of Fiscal Discipline***:** Ensuring government budgets are sustainable by avoiding large deficits (i.e. budget deficits should be small enough to be financed without recourse to the inflation tax).
2. *Redirection of Public Expenditure Priorities*: Shifting spending toward essential areas like health, education, and infrastructure.

3. *Tax Reforms*: Implementing reforms to lower marginal tax rates and broaden the tax base for greater efficiency.
4. *Liberalization of Interest Rates*: Allowing interest rates to be determined by market forces rather than government controls.
5. *Competitive Exchange Rate*: Maintaining an exchange rate that supports exports and economic growth.
6. *Trade Liberalization*: Reducing tariffs and other trade barriers to promote international trade (i.e. trade restrictions with tariffs of around 10–20%)
7. *Liberalization of Foreign Direct Investment (FDI) Inflows*: Encouraging foreign investment by reducing restrictions on FDI.
8. *Privatization of State-Owned Enterprises (SOEs)*: Transferring ownership of SOEs to private entities to improve efficiency.
9. *Deregulation of Economic Activities*: Reducing government regulations to encourage business activity and competition.
10. *Secure Property Rights*: Establishing and protecting property rights to promote investment and economic stability.

The Ten Commandments of the Washington Consensus were largely modified and integrated into the neoliberal policy framework championed by the Reagan and Thatcher administrations, later imposed on developing countries. While some of the original policy prescriptions were adopted unchanged, others were pushed to more extreme levels as the consensus evolved into a neoliberal manifesto. Additionally, new economic policies not part of the original Washington Consensus were incorporated into this expanded agenda (Marangos, 2009, p. 197).

The Washington Consensus policy prescriptions that remained unchanged included the liberalization of interest rates, the liberalization of foreign direct investment, and the privatization of state-owned enterprises. However, some policies were taken to more extreme levels: fiscal discipline shifted from maintaining manageable small deficits that could be financed without resorting to inflation tax to strict maintenance of budget balance; public expenditure priorities moved from focusing on essential areas like health, education, and infrastructure to an overall reduction in government spending; tax reforms evolved from broadening the tax base and lowering marginal tax rates to implementing overall tax cuts and

eliminating taxes aimed at redistributing income; exchange rate policies transitioned from a unified and competitive rate to fully floating and convertible rates; trade liberalization advanced from tariffs of around 10–20% to complete free trade and the removal of protectionist measures and capital controls; and deregulation extended from eliminating barriers to competition and market entry to, additionally, suppressing regulations designed to protect the environment. On the other hand, policies that were not initially part of the Washington Consensus but later emerged as key elements of the neoliberal manifesto included *price liberalization*, often referred to as "getting the prices right" and the establishment of an *independent central bank* with fixed money supply growth aligned with monetarist principles(Marangos, 2009, p. 201).

According to Engel (2010, p.16), the implementation of neoliberal policies in Third World countries typically occurs in two phases. The first phase, known as stabilization policies, involves rapid "big bang" measures. The second phase focuses on long-term structural adjustment, characterized by a series of comprehensive microeconomic reforms. The World Bank was primarily involved in national planning and project financing, whereas the IMF took on stabilization efforts after the 1973 oil crisis, applying models created for Latin America's inflation. While the IMF was meant to handle stabilization and the World Bank focus on long-term development, in reality, IMF stabilization programs took priority (Mkandawire, 2004, p. 308).

Fiscal austerity, floating exchange rates, and price liberalization were intended to be implemented through a "big bang" approach to achieve short-term macroeconomic stability. In contrast, the remaining policies were structural reforms designed to be introduced gradually, aiming to bring about long-term structural changes to the overall economy (Engel, 2010, p.16**).**

The Wall Street–IMF–Treasury complex, which came to dominate economic policy during the neoliberal era, successfully persuaded, encouraged, and, through the structural adjustment programs(SAPs) administered by the IMF, coerced many developing countries into adopting neoliberal policies (Harvey, 2007, p.29). Defenders of the neoliberal policies, including its enablers and beneficiaries—technocratic, corporate Washington—along with die-hard free-market advocates and right-wing political economists, base their arguments on the supposed efficiency of markets and their ability to address all of humanity's challenges (Moosa, 2021, p.16).

The first sign of neoliberalism in developing countries was the "Third World debt crisis". Loans to these nations during the 1960s and 1970s were largely motivated by anti-communism. However, by the late 1970s, rising real interest rates (1979), a structural crisis in capitalist countries, falling raw material and energy prices, and oil price fluctuations worsened their economic conditions. The crisis began in August 1982, when Mexico declared it could not meet its commitments, triggering a chain reaction. By 1983, 27 countries had rescheduled payments, with Mexico, Brazil, Venezuela, and Argentina accounting for 74% of the debt (Duménil & Lévy, 2005, p.17).

Following the 1982 Debt Crisis, loan and aid conditions became the primary tool for enforcing neoliberal policy prescriptions. The debt crisis in 1980s came about due to two major events in the international development history. The 1973 oil price shocks by OPEC (oil producing and exporting countries) following the Arab-Israel war and the 1979 "Volcker shock" (Harris, 2013, p.23). The surge in revenues for petroleum-producing countries led to easy credit for developing nations through dollar recycling. However, U.S. Federal Reserve Chairman Paul Volcker's decision to raise interest rates to address U.S. economic issues created a debt crisis, culminating in Mexico's default in 1982. To secure debt rescheduling, countries were compelled by international financial institutions to adopt reforms such as public expenditure cuts, liberalization, and privatization. The IMF and World Bank introduced economic stabilization and structural adjustment programs, aiming to reduce state involvement and promote liberal economic policies (Latham, 2011; Harris, 2013, p.23).

However, these neoliberal approaches to development ultimately proved no more effective than their Keynesian counterparts (Rapley, 2002; Rodrik, 2007). By adopting these prescriptions, many sub-Saharan countries ended the 1980s and even the 1990s in worse economic conditions than before, highlighting the significant social costs of neoliberalism (Engel, 2010). Even some authors, such as Easterly(2001) went as far as referring to the 1980s and 1990s as the "lost decades" for developing countries, marked by stagnation, economic decline, and rising social costs. This failure led to a critical reassessment of its policy recommendations and theoretical foundations.

In fact, during neoliberalism's dominance, some neo-classically-trained economists adopted more flexible approaches. Dani Rodrik emphasized tailoring policies to each country's context, highlighting China's two-track price system as a successful alternative to land privatization, which avoided tax, legal, and food price issues while encouraging private production. Similarly, Amartya Sen critiqued neoliberal reliance on utility metrics for well-being, advocating for development as the expansion of freedoms, particularly for the poor. Sen argued that freedom is both the goal and the means of development encompassing five key freedoms essential to development: political freedoms, economic facilities, social opportunities, transparency guarantees, and protective security (Engel, 2010, p.17).

By the late 1980s, the World Bank's own research showed that structural adjustment programs(SAPs) were largely ineffective, leading to a "lost decade" for much of Sub-Saharan Africa (Mkandawire, 2004, p.331). It was also at this time, in the early 1990s that a significant debate emerged regarding the "developmental states" of East Asia (Harris, 2013, p.25). The failure of structural adjustment shifted focus back to the role of the state. In 1992, the World Bank published a key paper on good governance, emphasizing transparency, accountability, and effective public management. This was followed by a publication of *the annual World Development Report* in 1997 by the World Bank. The World Bank (1997, p.18) argued that "development without an effective state is impossible" and emphasized the need for an effective, not minimal, state. However, it stated that the state should be *facilitative*, not *directive*, complementing rather than replacing markets. This is the view that came to be known later as the "post-Washington Consensus", which called for a balance between the market and the state, acknowledging both market and state failures, and underscoring the significant role of civil society in governance (Harris, 2013, p.28).

One of the proponents of Post-Washington consensus was the 2001 Nobel Prize winner Joseph Stiglitz for his work on market failures due to an information asymmetry. His research challenged the neoliberal view that markets are perfectly knowledgeable and efficient, showing instead that markets are prone to significant imperfections. This suggested that government intervention could be effective in more situations than neoliberal and even much neoclassical analysis had acknowledged (Engel, 2010, p. 18).

Stiglitz became a prominent critic of the IMF's one-size-fits-all approach to development. He criticized the neoliberal push for rapid capital market liberalization, arguing there was little evidence that it fosters economic growth and that, without proper sequencing and timing of reforms, it can do more harm than good(Engel,2010, p.19). Mainstream economists, particularly in the area of capital market liberalization, have raised significant questions about neoliberalism (Broad, 2004 cited in Engel, 2010, p.19). Regarding trade liberalization, Stiglitz acknowledged that East Asian development was partially driven by government intervention, but also recognized that opening up to international trade helped many countries grow faster than they would have otherwise (Stiglitz, 2002, cited in Engel, 2010, p.19). While not opposed to privatization, he stressed the need for strong state regulatory frameworks (Stiglitz, 2006 and Broad, 2004 cited in Engel, 2010, p.19).

Although the post-Washington Consensus reintroduced the state into economic affairs, its policy recommendations are not intended to replace but rather supplement the existing Washington Consensus. Its main preoccupation was tempering the neoliberal hostility's towards the state (Engel, 2010, p.19). The post-Washington Consensus emphasizes a tempered continuation of neoliberal policies, prioritizing gradual and context-specific liberalization with attention to market and government failures. Key elements include abandoning one-size-fits-all approaches, promoting local ownership of development programs, expanding the state's supportive role in markets, and fostering decentralization to improve governance and meet local needs. It also highlights the importance of social capital, addressing poverty and social costs, broadening health and education policies, and tackling corruption through a New Institutional Economics lens (Engel, 2010 p.19).

2.1.5. Developmental State theory

As reviewed in the above section, neoliberal ideology limits the state's role to that of a "night watchman", focused only on safeguarding private property and enforcing contracts, arguing against extensive intervention in the economy. This stance is based on the view that individuals' self-serving tendencies lead to rent-seeking behavior when governments expand their role. Rent-seeking, where unproductive actors exploit government connections for personal gain is seen as distorting markets and hindering efficient resource allocation. Neoliberalism asserts that a larger state increases the risk of such distortions, supporting the case for minimal government

involvement (Rapley, 2002). It assumes markets are Pareto-efficient, dismissing market failures. However, recent literature has emerged in the academic discourse as well as lived experiences, emphasizing the existence of market failures in developing countries. There are public goods (like security, technology, and infrastructure) that markets often undersupply and the private sector could not venture into. Without some mechanism other than the market to address these failures, progress in these nations remains inconceivable. The state is, therefore, the only viable option positioned as the key agent responsible for bridging the gap created by market deficiencies through its economic interventions (Devarajan & Kanbur, 2013, p.30).

It's against this backdrop that the theory of 'developmental state' came about. Chalmers Johnson (1982), in his examination of Japan's Ministry of International Trade and Industry (MITI), introduced the concept of the developmental state, and ever since, this term was swiftly adopted and further advanced by numerous other scholars in the field of political economy, including Robert Wade, Peter Evans, and Meredith Woo-Cummings in foundational research concerning other newly industrializing economies such as the 'East Asian Tigers' (Williams, 2015, p.278; Bishop et al., 2018, p.2). These scholars and others highlighted that, in contrast to dominant free-market theories, the significant state intervention played a crucial role in the 'catch-up' development experienced by several East Asian nations (Bishop& et al., 2018, p.2).

The accomplishments of East Asian nations were not founded on Soviet-style command economies or on laissez-faire free-market systems; rather, they were rooted in "market-conforming methods of state intervention", which can be characterized as a "capitalist developmental state" (Johnson, 1982, 1999 cited in Meyns, 2010, p.49; Radice, 2008).

The idea of a developmental state, therefore, refers to a government that plays an active role in influencing and managing the pace and direction of economic growth; one whose core ideology is centered on developmental goals and actively leverages its administrative and political capacities to pursue economic growth and development(Mkandawire, 2001).

This concept is closely associated with the economic policies adopted by East Asian countries in the latter part of the twentieth century, particularly in connection with the Japanese economic framework that developed following World War II. By definition, a developmental state is a state that seeks to mitigate the shortcomings caused by market failures or the insufficient provision of

certain goods by the market, thereby fostering rapid development through significant state intervention (Caldentey, 2008, p.27).

Mkandawire (2001, p. 290) and Meles Zenawi (2012, p.142) assert that the developmental state has two core natures: ideological and structural. In its ideological nature, developmental state views development as an existential issue, emphasizing accelerated and radical economic transformation to address life-and-death challenges. Development cannot rely on a trickle-down process but must be actively driven to avert existential threats. On the other hand, the structural nature of developmental state assumes state autonomy, maintaining independence from external influences and relative autonomy from the private sector. While the private sector is a key engine of development, the state must retain control and distance to effectively steer development. It's this nexus between these natures that forms the foundation of the developmental state, creating a hegemonic idea that development as an existential imperative must be widely accepted by the people. This combination enables the state to focus ideologically on rapid development, maintain structural autonomy, and intervene strategically in sectors where markets fall short, distinguishing it from other state models (Mkandawire, 2001, p.290; Meles, 2012, p.141&143).

According to Biahop&et al (2018, p.2), this approach to development should not be misunderstood as a rejection of markets; rather, it acknowledges that, if left unregulated, markets can produce harmful outcomes, including the failure to develop adequately. The concept of a developmental state was fundamentally aimed at fostering market growth, while intentionally modifying market dynamics to align with specific national development goals. This was achieved through the strategic application of incentives, tariffs, subsidies, and particularly the regulation of financial resources (Radice, 2008, p.1154). In contrast to the liberal perspective, which posits that countries should passively accept and leverage their 'comparative advantage' as if it were a fixed and naturally occurring phenomenon, proponents of the developmental state view comparative advantage as a fluid and dynamic concept, one that can be actively shaped in a continuous effort to enhance industrial capabilities (Biahop&et al., 2018, p.2).

The role of the state in the development process has been a topic of significant debate among scholars. It stretches as far back as the era of Mercantilism at the emergence of capitalism, through the 19th-century critiques of free trade by Hamilton and List, and extends to Gerschenkron's analysis of the "late development" period (Radice, 2008, p.1153). Historical

analyses by Polanyi (1957, pp. 66-68) and Gerschenkron (1962) highlighted the crucial role the state played in the economic transformation of countries like England and Germany. These states were instrumental in building institutions, facilitating trade and investment, and mobilizing resources to accelerate growth and develop new productive capacities. Contrary to the neoliberal perspective, which argues that state intervention leads to inefficiency and market distortions, developmentalist scholars and states emphasize the indispensable role of the state in providing public goods like education and infrastructure, which are foundational for economic transformation (Williams,2015, p.278).

While acknowledging the potential for rent-seeking and corruption within the state, its active role in development remains critical. The economic successes of East Asian countries from the 1950s to the 1980s—often referred to as the "East Asian Miracles"—demonstrate this. These countries' economic development was so remarkable that even neoliberalists attributed it to their policy framework, even though a closeup look at it revealed otherwise(Mkandawire, 2001, p.291; Radice, 2008, p.1166). Nations like Japan, South Korea, Taiwan, and Singapore achieved remarkable growth not through strict adherence to neoliberal principles but through robust state intervention. A key feature of their success was the establishment of capable, coherent state bureaucracies characterized by what Evans (1995) described as "embedded autonomy"—a balance between being connected to social forces, particularly the industrial class, while maintaining independence from undue influence by economic elites.

Proponents of developmentalism argue that a well-organized, efficient, and law-abiding state is essential to breaking the cycle of dependency and achieving sustainable development. Central to this perspective is the role of strong, effective bureaucracies that are insulated from external pressures yet actively engaged with key economic actors. These bureaucracies, guided by Weberian principles such as meritocratic recruitment and rewarding careers in public service, ensure effective governance. This 'embedded autonomy' enables states to mobilize resources, direct industrial investments, and provide essential collective goods, thereby solidifying their role as pivotal agents in economic transformation (Ng, 2008, p.1; Williams, 2015, p.278).

Samuel Huntington, a leading advocate of strong institutions, emphasized the significance of strong states in fostering development. In his influential 1968 work, *Political Order in Changing Societies*, Huntington highlighted the importance of establishing "strong, adaptable, coherent

institutions" to overcome underdevelopment. These institutions include "*effective bureaucracies, well-organized political parties, a high degree of popular participation in public affairs, working systems of civilian control over the military, extensive activity by the government in the economy, and reasonably effective procedures for regulating succession and controlling political conflict*"(Huntington,1968, p.1). Together, these elements form the foundation for stable and legitimate governance, which is critical for guiding social and economic transformation.

Huntington argued that the most critical political distinction among countries lies not in their form of government—whether democratic or authoritarian—but in the effectiveness of their governance. He maintained that the divide between democracy and dictatorship is less consequential than the gap between countries with stable, legitimate, and well-organized political systems and those lacking these attributes. Both communist totalitarian regimes and Western liberal democracies, despite their ideological differences, are examples of effective political systems. Nations like the United States, Great Britain, and the Soviet Union, despite differing governmental structures share a commonality: their governments effectively govern (Huntington, 1968, p.1).

Huntington also argued that many countries in the Global South are characterized not by political progress but by political decay. He contended that social mobilization in the absence of strong institutions leads to political instability rather than development. According to him, political development must precede economic growth, laying the groundwork for developmentalists to prioritize building robust states with strong bureaucracies that can effectively manage social mobilization and channel it into productive economic nationalism. This implies development can take place under any form of government (i.e. authoritarian or democratic) as long as there is effective and strong bureaucracy to pursue the development goals.

Chapter 3: Ethiopian development endeavors in historical perspective

3.1. The early Ethiopian development endeavors: an overview

3.1.1. The Quest for Modernization and Development in Ethiopia

Ethiopia, one of the oldest nations in the world with a history stretching back to antiquity (Messay Kebede, 2023, p.25), has endured significant social and geographical dynamics, surviving countless wars, and many highs and lows to reach its current state (Markakis, 2011). It holds a unique place in history as the only African country to have successfully resisted colonialism, experiencing only a brief Italian occupation (Pankhurst, 1965, p.26; Messay Kebede, 2023, p.25). From the ancient Axumite Kingdom up until the 1974 revolution, Ethiopia's rulers were predominantly believed to be of Solomonic descent, with only a few interruptions (Messay Kebede, 2023, p.25). Despite facing internal dynamism and external threats, Ethiopia's continuity and survival until the 1974 revolution can be attributed to what Messay Kebede (2023, p. 33) describes as "a system of power that was protective of survival and bearer of a mission". This system rested on three pillars: the imperial throne, the Ethiopian Orthodox Church, and the nobility.

The role of Orthodox Christianity and the *Kibre Negest* (The Glory of Kings) was indispensable in unifying the state and the church, providing a religious and ideological foundation for Ethiopian nationalism. Additionally, the landholding systems, particularly the *rist* and *gult* systems, granted the nobility economic power in exchange for their loyal service to the emperors. The interplay of these factors—religious unity, ideological cohesion, and a flexible socio-economic structure—created a society that was both cohesive and dynamic, enabling Ethiopia to endure for centuries (Messay Kebede, 2023, pp.35-38).

Even though Ethiopia's survival ethos has enabled the country to endure through the centuries into modern times, it was only during the reign of Emperor Tewodros II (1855–1868) that the first flicker of modernization began to emerge (Clapham, 2006, p.138). Rubenson(1966, p.90), in his own words, went as far as saying that "*Tewodros is the father of modern Ethiopia in the sense that he conceived the idea of a united, strong, and progressive Ethiopian state, the peer of any other state in the world"*. He was described by Clapham(2006, p.138) as "*the first Ethiopian*

ruler, perhaps the first Ethiopian, with a project of modernity, a conception at least of Ethiopia as a developed state, along the lines of states in Europe".

Tewodros II, often regarded as a visionary reformer, recognized the need for Ethiopia to modernize in order to strengthen its defenses and maintain its independence in the face of growing external threats, particularly from European colonial powers (Crummey, 1969). His modernization aspirations took shape after he ended the nearly ninety-year period of political instability and lack of state cohesion, famously known as the *Zemene Mesafint* (the Era of Princes) (Rubenson, 1966).

Emperor Tewodros sought to centralize power, reform the military, and introduce modern technologies and administrative practices. He understood that Ethiopia's traditional systems, while effective for survival, were insufficient to meet the challenges of a rapidly changing world. To achieve his goals, he implemented several reforms, including land reform, the creation of a salaried standing army, the establishment of a library to assemble books, the introduction of tax laws, regulations for the church, and the development of a centralized political system with distinct administrative districts (Pawulos Gnogno, 1993). These measures were designed to pave the way for his aspirations for modernization and development. Additionally, Tewodros initiated efforts to modernize the military and unite Ethiopia's provinces, while also seeking diplomatic ties with Western nations to garner support for his modernization initiatives (Pawulos Gnogno, 1993; Bahiru Zewde, 2002).

However, his efforts were met with significant resistance from entrenched traditional forces, particularly the Ethiopian Orthodox Church and regional nobility, who viewed his reforms as a threat to their authority and way of life (Rubenson,1976). Despite his ambitious vision, Tewodros's reign was marked by internal strife and external pressures, culminating in his tragic defeat and suicide following the British expedition to Magdala in 1868(Messay Kebede, 2023). While his attempts at modernization were ultimately unsuccessful, Tewodros II laid the groundwork for future leaders, such as Emperor Menelik II, to continue the push for modernization. His reign represents a critical turning point in Ethiopian history, marking the first conscious effort to reconcile Ethiopia's traditional systems with the demands of modernity (Messay Kebede, 2023).

Modernization efforts were also further pursued by Emperor Menelik II (1889–1913) who played a crucial role in propelling Ethiopia into the modern age (Clapham, 2006, p.140). Building on the foundations laid by his predecessors, Tewodros II and Yohannes IV, Menelik II pursued a relatively comprehensive agenda of modernization that encompassed infrastructure development, military reform, diplomatic engagement, and administrative centralization. His reign is particularly celebrated for Ethiopia's decisive victory over Italian forces at the Battle of Adwa in 1896, which not only secured Ethiopia's independence but also established it as a symbol of African resistance to colonialism (Clapham, 2006, p. 139).

However, despite its remarkable history of survival, Ethiopia has struggled to achieve successful modernization (Clapham, 2006). Scholars have long debated the reasons behind this stagnation. A group of Ethiopian intellectuals, collectively referred to as the "Japanizers"—including figures like Guebre Hiwot Baykedagn, Gebru Desta, Worqeneh Martin, and Heruy Wolde Sellase—argued that Japan's successful modernization was due to its adoption of the Western path of development. They contended that Ethiopia's failure to modernize stemmed from its reluctance to embrace a Eurocentric approach and its continued adherence to traditional values. Gebrehiwot Baykedagn, one of the prominent "Japanizers," was quoted in Messay Kebede (2023, p.47) as arguing that Ethiopia "*should follow the research of European scholars, [as] humanity attained its present level of understanding and wealth not at once but in stages proceeding from one to the other*."

Scholars such as Tekle-Hawariayat have even pondered what the outcome might have been if Ethiopia had been colonized like any of the African countries. Quotted in Bahiru Zewde(2002, p.100), Tekle-Hawariayat wrote:

> *Sometimes I ask myself, would it have been better if the civilized nations had colonized us for a short period of time? The British had that opportunity twice [after ousting Tewodros in 1868 and the Italians in 1941]. But, because they were not prepared to help, they left the country without setting up anything.*

This perspective reflects the belief that modernization requires emulating the Western model of development. In contrast, Messay Kebede (2023, p.52) challenges this Eurocentric view, arguing that the main reason Ethiopia has not achieved modernization is not due to inherent defects in its traditional society but rather because of a "derailment" of its modernization

process. This derailment occurred when Ethiopia's traditional systems and values encountered modernity in a skewed manner, leading to the reinforcement of traditional authoritarianism and power structures rather than fostering positive sociocultural and economic changes. Instead of using modern elements to transform society, Ethiopian elites misused them to consolidate traditional hierarchies, resulting in stagnation rather than progress.

Since the first modernization and development initiative by Emperor Tewodros, Ethiopian rulers and regimes that followed sought a development model to mimic from countries such as Russia, Japan, United Kingdom and other western countries, which phenomenon Clapham(2006 p.138) refers to as the "politics of emulation".

The "politics of emulation", though was begun during Emperor Tewodros's reign, gained momentum under the imperial regime and has continued to shape Ethiopia's development paradigms. Each successive regime has adopted its preferred model, aiming to modernize the country. Over time, Ethiopia's development approach has shifted dynamically, from the imperial era to the current Prosperity Party, reflecting an ongoing search for an effective modernization strategy. Historically, Ethiopian leaders have drawn inspiration from various nations, including imperial Russia, Japan, and Western states like the United Kingdom. However, despite these efforts, none of these models has achieved significant success in Ethiopia's development (Clapham, 2006, p.138).

3.1.2. The Imperial Regime

By the 'Imperial regime', we often refer to the reign of Emperor Haile-Silassie I (1930-1974) in particular, and to its predecessor reigns in general (Alemayehu Geda, 2007, p.2). While many agree that the concept of modernization was introduced in Ethiopia during the reign of Emperor Tewodros II and pushed farther during the emperor Menelik II, it was during the reign of Emperor Haile Selassie I that a conscious and systematic approach to development was started (Maru Shete, p.50, 2016).

To that end, the emperor Haile Selassie I regime established institutions upon which the centrally-administered plans that were crafted by sourcing expatriate advice were founded (Maru Shete, 2016, p.50). The technical help received between 1945-1957 from FAO, Yugoslavia and the United States was central in preparing the three consecutive development plans (Amha Dagnew, 2012, p.130;

Dejene Aredo, 1992, p.215). However, due to the lack of country-wide skilled human power, the plans were shelved until the imperial regime established in 1954 an institution known as the National Economic Council which was tasked with economic policy making. This institution was responsible for developing the two successive five year development plans while the third five year development plan was developed by ministry of planning (Tesfaye Asfaw, 1992, p.252; Maru Shete, 2016, p.51).

These three successive ambitious development initiatives (1957-1974) that Ethiopia embarked on were aimed at transforming Ethiopia's traditional, subsistence-based economy into a modern, monetized economy. The plans comprised of infrastructural development, agriculture, mining, manufacturing and industry (Economic Commission for Africa, 2016). While these plans laid the groundwork for Ethiopia's economic development, they faced significant challenges and fell short of their ambitious goals. In what follows, the general overview highlighting the objectives, achievements, and challenges of each plan along with their sectorial development policies are explored providing an overview of Ethiopia's early attempts at modernization under the Imperial regime.

3.1.2.1. The first five-year development plan (1957–1962)

The first five-year development plan, hereafter FFYDP which marked Ethiopia's first systematic attempt at nationwide economic planning was formulated in 1957 and stayed in implementation until 1962. It was mainly focused in the development of infrastructures, particularly in the areas of transportation, construction and communications which had been deemed important in integrating isolated regions with the center parts of the country (Ofcansky & Berry 1991 cited in Maru Shete, 2016, p.51). In addition to the development of infrastructure, the FFYDP was engaged in producing skilled and semi-skilled personnel who were to work on import substituting industries. Agricultural development through large-scale commercial farming was also the integral part of this plan (Berhanu Zeleke, 2016). The plan aiming at realizing a monetized and robust agricultural economy set the tone for the promotion of modern education, construction of transport and communication infrastructures(such as radio broadcasting, all-weather roads, air transport linking major towns) and large scale mechanized farms(Markakis, 2011 cited in Maru Shete, 2016, p.51). The completion of the Koka Hydroelectric Power Plant significantly increased electric power output, supporting industrial growth. The manufacturing sector, particularly food processing and textiles, also saw modest growth during this period (Ayele Kuris, 2006, pp. 4, 7).

However, the plan faced several challenges. Despite its aspirations, Ethiopia's Gross National Product (GNP) grew at an annual rate of only 3.2%, falling short of the 3.7% target (ECA, 2016; Country Studies, n.d.). The country's trade balance remained negative, with imports growing faster than exports. Weak administrative and technical capabilities, along with low domestic savings, further hindered the plan's implementation. As a result, the First Five-Year Plan failed to achieve its goal of modernizing and integrating agriculture with an industrial economy, leaving the majority of the population still in poverty (Berhanu Zeleke, 2016).

3.1.2.2. The Second Five-Year Plan (1963-1967)

Building on the foundation laid by the first plan, the Second Five-Year Plan shifted its focus toward transforming Ethiopia's economy from an agricultural base to an agro-industrial one. It prioritized investments in manufacturing, mining, and electricity, while its agricultural investments aimed to boost foreign exchange through increased exports and enhance local food production to reduce imports (Cohen, 1987). The plan emphasized diversification of production, the introduction of modern processing methods, and the expansion of agricultural extension services to support smallholder farmers (Maru Shete, 2016, p.51).

The Second Five-Year Plan achieved notable progress in the manufacturing sector, which grew at an impressive rate of 16% annually. Key industries such as food processing, textiles, beverages, and tobacco expanded significantly. Infrastructure development continued, particularly in transportation, with the construction of roads and communication networks aimed at opening up new regions of the country. The plan also formally recognized the feudal land tenure system as a major obstacle to agricultural development, marking an important step toward addressing structural issues in the economy (Assefa Admassie, 2007, p.189 and Ayele Kuris, 2006, p.5).

Despite these achievements, the plan faced significant challenges. Smallholder agriculture was largely neglected both in the first and second five year plans in favor of infrastructure development and large-scale commercial farming, which received the majority of investment (Dejene Aredo, 1992, p. 215). For example, in the first five year development plan, agriculture received only 7.5 percent of the total monetary investments in contrast to infrastructural development to which 45 percent was allocated (Dejene Aredo, 1992, p.215). As a result, the

agricultural sector grew at only 2.5% annually, far below the target (Robinson, 1986, p.331). Additionally, the economy's overall growth fell short of expectations, highlighting the limitations of the plan's approach (Berhanu Zeleke, 2016, p.94).

3.1.2.3. The Third Five-Year Plan (1969-1973)

The Third Five-Year Plan was the most sophisticated of the three plans, incorporating lessons learned from the previous two. It placed greater emphasis on improving peasant agriculture, expanding educational opportunities, and addressing social issues such as health and education. The plan also recognized the urgent need for land reform to address inequitable land tenure systems and improve agricultural productivity (Alemayehu Seyoum, 2004 cited in Berhanu Zeleke, 2016, p.94).

One of the key achievements of the Third Five-Year Plan was its explicit recognition of the need for land reform. The plan acknowledged that the existing land tenure system, characterized by insecurity and exorbitant sharecropping arrangements, was a major barrier to agricultural development (Stommes & Sisaye, 1979). The government also increased its investment in manufacturing and infrastructure, with a focus on traditional industries like food processing and textiles. These efforts laid the groundwork for future agricultural modernization programs. However, the plan faced significant challenges. Economic growth was disappointing, with agriculture growing at only 2.9% annually, far below the target. The 1973 drought, inadequate domestic resource mobilization, and low capital inflows further hindered progress. Despite its ambitious goals, the plan failed to significantly alter the structure of the economy or improve living standards for most Ethiopians. By the early 1970s, Ethiopia's economy had begun to diversify, but these changes failed to benefit the majority of the population, who remained subsistence farmers (Maru Shete, 2016).

3.1.2.4. Sectoral Development Policies: Achievements and Limitations

The Imperial regime's development policies targeted key sectors such as agriculture, industry, infrastructure, education, and health. While the regime achieved notable progress in certain areas, the policies often favored urban elites and large-scale commercial interests, leaving rural populations and smallholder farmers marginalized (Solomon Tsehay et al., 2022).

A. Agriculture: The Backbone of the Economy

Agriculture was the cornerstone of Ethiopia's economy during the Imperial regime, employing the majority of the population and contributing significantly to the country's GDP. However, the sector was plagued by low productivity, feudal land tenure systems, and subsistence farming (Welteji, 2018, p.6). Even though agriculture was known to be the main sector contributing to the country's GDP and employment, the imperial regime's FFYDP neglected it rendering it as "obsolete form of the economy" and the overarching development strategy to be followed was industrial-led development (Stommes & Sisaye, 1979; Zerihun Gudeta et al., 2002). However the imperial regime found it crucial to modernize the agricultural sector and increase productivity through large-scale commercial farming in order to produce agricultural commodities satiating the emerging urban market and for export.

To that end, the promotion of commercial agriculture, particularly for cash crops like coffee, which was Ethiopia's primary export commodity, was pursued in the first development plan (OECD & Policy Studies Institute, 2020). Large-scale commercial farms, often owned by the elite or foreign investors, were encouraged to boost production and generate foreign exchange (Zerihun Gudeta et al., 2002, p.4). The development of peasant agriculture sector was still neglected and subordinated to the industrial sector and commercial faming during the second five year development plan (SFYDP), even though at the level of rhetoric the need to modernize the sector was echoed (Cohen, 1987).

It was however during the third development plan that peasant agriculture was given due attention as a result of shortages of food encountered during the 1960s (Zerihun Gudeta et al., 2002, p.4). Even though policy makers shifted their attention to the development of the peasant agriculture, there was no plan to alter course on overall development strategy of the country (Zerihun Gudeta et al., 2002, p.4). Among others, the two major problems which have been identified to have affected agricultural development were problems associated with the overall agricultural production and with that of peasant agriculture (Stommes & Sisaye, 1979). The plan placed special focus on two key challenges hindering agricultural progress: the issue of overall agricultural productivity and the difficulties faced by peasant farming. To address these issues, the plan proposed two separate agricultural policies; one targeting commercial agriculture, and

the other aimed at supporting peasant or subsistence farming (Robinson, 1986; Stommes & Sisaye, 1979).

With regards to transforming the subsistence agriculture, the plan forwarded comprehensive package programs (CPP) through which agricultural inputs to peasant farmers are distributed (Stommes & Sisaye, 1979; Robinson, 1986, pp.331-332). The CPPs are in terms of various rural development activities, such as agricultural research, provision of access to modern farming inputs, offering marketing and credit support, and fostering the growth of cooperatives (Dejene Aredo, 1992, p.218; Dawit Alemu & Kassahun Berhanu, 2018, p.16). As a result the first three comprehensive package projects in line with this objective were established in selected areas of the country. The projects included the Chilalo Agricultural Development Unit (CADU), the Wolayita Agricultural Development Unit (WADU) and the Ada District Development Project (ADDP), which were established in the years 1967, 1970 and 1972 respectively(Robinson,1986, p.332; Dejene Aredo,1992, p. 218; Dawit Alemu & Kassahun Berhanu, 2018, p.16).

The primary goals of these three comprehensive package programs were to increase the real incomes of small-scale farmers, encourage the active involvement of both small farmers and local government officials, mitigate negative employment impacts while creating new job opportunities where possible, reduce existing income inequalities, consistently explore effective strategies for advancing nationwide rural development, and gather data to inform the design of improved future projects(Dejene Aredo,1992, p.218).

The imperial regime, however, realized that it could not afford to go around the country replicating costly comprehensive development packages, such as CADU, and resorted to establishing and promoting Minimum Package Programmes (MMP) which are deemed better in bringing about development to the smallholder agriculture (Robinson, 1986, p.332).

B. Industry: The Push for Modernization

Industrial development was given a key priority in the Five-Year Plans, with an emphasis on light consumer goods industries, such as textiles, food processing, and beverages. The government adopted an import substitution industrialization (ISI) strategy, prioritizing industries that could engage in domestic production to replace imported goods, thereby reducing Ethiopia's reliance on foreign imports (Mulu Gebreeyesus, 2013, p.3).

This industrial endeavor was planned to come about through foreign direct investment. To attract foreign capital, the government enacted policies offering tax exemptions, provision of credit, import/export duty relief and protection of domestic industries by banning imports through high tariffs. The government also pledged to enhance its infrastructural and human resources development which were deemed important in boosting the industrial development (Mulu Gebreeyesus, 2013, p.4). Foreign investors were encouraged to establish industries in Ethiopia, particularly in sectors like sugar production, as seen in the establishment of the Wonji Sugar Factory, oil refinery, cement, sugar, and textile. These foreign investors dominated and consumer market oriented industries were mainly concentrated in the three cities of Addis Ababa, Dire Dawa and Asmara (Arkebe Okubay, 2019, p.4)

The industrial development aspiration was further advanced during the two more five-year development plans (the SFYDP and TFYDP), which were launched between 1963 and 1973. During these periods, the government extended its incentives to attract more FDI. Usually, the incentive structure was skewed towards import-substituting, larger, capital-intensive, and foreign-dominated industrial activities (Mulu gebreeyesus, 2013, p.4). The government also continued to play its role in the economy by investing directly in industries with high capital costs (Mulu Gebreeyesus, 2013, p.3). Institutions like the Ethiopian Investment Corporation and the Development Bank of Ethiopia were established to support industrial development (Arkebe Okubay, 2019, p.5).

Despite these efforts, industrial growth was limited by a lack of infrastructure, skilled labor, and domestic capital. The manufacturing sector remained small and focused on low-value-added industries, failing to significantly transform the economy or create widespread employment opportunities. Industrialization during the Imperial regime was, thus, unable to address the structural issues in the economy (Arkebe Okubay, 2019, p.5).

Assessments of Ethiopia's three consecutive development plans reveal that none met their intended objectives. According to scholars like Kassahun Berhanu &Poulton (2014, p.202), structural challenges, especially land tenure insecurity, were a major impediment during the imperial period. From 1960 to 1974, rising political opposition to the Haile Selassie regime diverted attention from executing the second and third five-year plans to managing political

unrest. Additionally, a shortage of skilled administrative and technical personnel hindered the success of all plans, leading to their poor outcomes. Chronic trade imbalances and weak economic growth, which struggled to surpass 3.2% during the first five-year plan, further highlighted these difficulties (Ofcansky & Berry, 1991; Maru Shete, 2016).

3.1.3. The Derg Regime

In 1974, the Ethiopian Revolution broke out as the country was preparing its fourth five-year development plan. No later than the eruption of the revolution, in that same year, the imperial regime was toppled by a group of military officers, who called themselves the Provisional Military Administrative Council (PMAC) or Derg (Fasil G.Kiros, 1993). The Derg regime, which ruled Ethiopia from 1974 to 1991, marked a radical departure from the Imperial era in terms of political orientation and economic and social development policies. Coming to power after the overthrow of Emperor Haile Selassie I, who had been ruling the country under absolute monarchial political system since 1930, the Derg adopted a socialist-oriented approach, emphasizing state control, nationalization of key sectors, and collective farming (Tagese Helore, 2024, p.6).

During the military regime, the government nationalized the majority of Medium and Large-Scale Manufacturing Enterprises (MLSME), which were subsequently reorganized under state-owned corporations. The regime adopted a “socialist economic policy”, implementing extensive restrictions on private sector activities and market operations (Mulu Gebreeyesus, 2013, p.5). Private investments were restricted to a maximum of 500,000 Birr (equivalent to about $250,000 USD), and individuals were permitted to engage in only one business venture. Price controls were enforced on a broad range of products, and the labor market was subject to strict regulations. Furthermore, imports were constrained by quantitative limits and increased tariffs. The exchange rate of the Ethiopian Birr was fixed at around 2.07 per US dollar and remained unchanged throughout the military government’s tenure (Mulu Gebreeyesus, 2013, p.5).

While the regime implemented several ambitious policies aimed at addressing inequality and modernizing the economy, its efforts were often undermined by inefficiency, political repression, and economic mismanagement. This section examines the Derg regime’s development policies, focusing on their objectives, implementation, and outcomes across key sectors.

3.1.3.1. Development Policies under the Derg Regime (1974-1991)

A. Land Reform

Following the overthrow of the Haileselasie I regime, Ethiopia found itself at cross roads of the international relations between competing west capitalist block led by USA and eastern socialist camp led by the Soviet Union. Ethiopia submitted to the latter, which marked a significant breakaway from the existing Ethiopian political and socio-economic structure (Tagese Helore, 2024, p.6). This political transition introduced changes to a whole lot of economic changes including the landholding system which was one of the questions of the student movement under the slogan "land to the tiller" (Teshome Chala, 2016, p.114).

The Derg's most notable policy initiative was the 1975 Land Reform Proclamation, which abolished private land ownership and redistributed land to peasants (Kassahun Berhanu &Poulton, 2014). The land distribution was conducted through peasant associations which were first instituted by a development campaign called '*zemecha edget behibret'* which roughly translates into 'development through cooperation campaign' (Fasil G.Kiros, 1993).

Peasant associations typically addressed land distribution by allocating cultivable land to their members through two primary methods. The first approach involved dividing land based on quality, assigning each household a share of "fertile", "moderately fertile", and "relatively infertile" plots, reflecting traditional classifications such as *lem*, *lemtef*, and *tef*. The second method distributed land according to family size, either expanding existing holdings or adding new plots as households grew. This practice often led to an increase in the number of plots cultivated by each household, as larger families claimed additional land to meet their needs (Fasil G.Kiros, 1993).

B. Industry

The manufacturing sector was one of the sectors experiencing a sharp decline in the years immediately following the 1974 revolution. The military regime was partially successful in reversing the decline as a result of the launching of a production campaign dubbed *zemecha* in 1977/78 which was aimed at boosting productivity by increasing capacity utilization (Mulu Gebreeyesus, 2013, p.5). However, the regime lacked a coherent industrial policy until the mid-1980s, when a central planning body was established in 1984 and a Ten-Year Perspective Plan

(TYPP) was formulated for 1984/85–1993/94. This plan focused on promoting import-substituting and labor-intensive industries, with public sector investment as the primary driver of industrialization (World Bank, 1985).

The nationalization of industries and restrictions on private sector participation reduced the once-vibrant private sector to micro- and small-scale manufacturing activities. By 1985/86, state-owned enterprises (SOEs) dominated the Medium and Large-Scale Manufacturing (MLSM) sector, accounting for 95% of value added and 93% of employment. Despite their dominance, SOEs faced financial difficulties, relying on government subsidies and overdrafts for working capital. Manufacturing establishments struggled with shortages of foreign exchange, raw materials, and working capital, operating far below capacity and producing low-quality goods that failed to meet domestic demand or compete internationally (UNIDO, 1991).

In the final years of the *Derg* regime (1987–1991), the Ethiopian economy experienced a sharp decline, with GDP and major sectors, particularly manufacturing, contracting significantly. The manufacturing sector saw a 40% decline in value added in 1991 alone, while the number of MLSM establishments fell from 380 in 1987/88 to 275 in 1990/91, accompanied by a drop in employment. This decline was driven by hostile policies toward the private sector, inefficiencies in the public sector, and the intensification of civil war. In March 1990, the regime attempted to shift to a mixed economic policy to liberalize the economy, but this effort was too late and short-lived, as the regime was overthrown in May 1991(Mulu Gebreeyesus, 2013, p.5).

3.1.4 Lessons and Pitfalls of the Policies of the Previous Regimes

The development endeavors under the Imperial and Derg regimes, while differing radically in ideology and approach, offer critical lessons and reveal recurring pitfalls that have shaped Ethiopia's development trajectory. An analysis of these periods highlights fundamental paradoxes between state-led ambition and grassroots realities, between imported models and local contexts, and between structural reform and political will.

A paramount lesson from both eras is the primacy of land tenure and agricultural transformation. The Imperial regime's failure to address the feudal *rist* and *gult* systems acted as a major brake on productivity and a source of rural inequality, a flaw it belatedly acknowledged in its Third

Five-Year Plan. Conversely, the Derg's radical 1975 Land Reform successfully dismantled the feudal structure but failed to create a productive, market-oriented agricultural sector, demonstrating that effective land policy must balance equity with incentives for investment and sustainable management, a challenge that remains central to Ethiopia's development.

Furthermore, both regimes were hampered by a reliance on the "politics of emulation" and top-down planning. The Imperial era's development plans, heavily reliant on expatriate advice and focused on large-scale, capital-intensive projects, were mirrored by the Derg's imposition of a rigid socialist model from the Eastern bloc. The consistent shortfall in achieving planned targets underscores that development models cannot be simply transplanted; they require deep-rooted local ownership, institutional capacity, and alignment with the socio-economic context of the nation. This weakness was exacerbated by a chronic deficiency in human capital and effective institutions. The Imperial regime's ambitions were consistently undermined by a shortage of skilled administrative and technical personnel, revealing that even the establishment of bodies like the National Economic Commission could not compensate for the broader need for sustained investment in education, technical training, and merit-based administrative systems. This institutional weakness was coupled with a persistent imbalance in sectoral development, where in the Imperial period, favoritism towards infrastructure and large-scale commercial farming neglected the smallholder agriculture that employed the vast majority, thereby perpetuating rural poverty and stunting the growth of a domestic market for nascent industries.

These lessons are further illuminated by a series of recurring pitfalls. A consistent failure across regimes was the tendency for development benefits to be captured by elites. Under the Imperial regime, policies favored urban elites, the nobility, and large-scale commercial farmers, while the Derg's redistributive land reform simply replaced feudal lords with party-state control through peasant associations, and its industrial policy stifled the private sector. This pattern shows that without explicit mechanisms for broad-based inclusion and accountability, development policies often reinforce existing or create new structures of inequality. Compounding this was a profound ideological rigidity. The Imperial regime's adherence to a feudal-monarchical structure prevented meaningful land reform until it was too late, while the Derg's dogmatic commitment to Marxism-Leninism led to the catastrophic nationalization of industry and a command economy that proved inefficient and unresponsive.

Finally, development planning was repeatedly derailed by a neglect of political sustainability and incoherent implementation. In the Imperial era, rising political opposition diverted attention from plan implementation, while the Derg's entire tenure was marred by internal repression and civil war, making coherent development impossible. This underscores that economic plans cannot succeed in a vacuum and are entirely dependent on a stable and inclusive political settlement. Even when problems were correctly diagnosed, implementation was consistently weak, as seen in the Imperial regime's failure to scale up effective but costly Comprehensive Package Programs and the Derg's launch of a Ten-Year Perspective Plan into an already collapsing economy. Chronic issues like trade imbalances and poor resource mobilization revealed a deep-seated weakness in state capacity and fiscal discipline.

In conclusion, the historical endeavors of the past regimes illustrate that Ethiopia's struggle with modernization was not due to a lack of effort or vision, but rather to profound structural and political failures. The inability to implement inclusive and sustainable agricultural reform, the reliance on top-down, emulated models, the weakness of administrative capacity, and the subordination of economic logic to political ideology and instability constitute the core pitfalls that have hindered the nation's progress. These historical lessons provide an indispensable context for understanding the subsequent development choices made by the regimes that followed.

Chapter 4: Political Economy of Development under the EPRDF Regime

4.1 An Overview

According to Paulos Chanie (2007, p.271), by the 1980s Tigray People's Liberation Front (TPLF) almost secured all the backing from the people of Tigray in the Northen Ethiopia. The central government left the province of Tigray completely in 1989 after a military defeat by the TPLF, enabling TPLF to seize the entire territory of Tigray including major cities such as Mekele, Aksum and Shire Endaselassie. Later that year, Mengistu Hailemariam executed more than 200 well trained military officers of his own regime after a failed coup attempt, thereby alerting the TPLF into making a quick move to form a coalition front with other rivalry military forces (Paulos Chanie, 2007, p.271).

As a result, an alliance was made in 1989 between the Tigray People's Liberation Front (TPLF) and the Ethiopian Peoples' Democratic Movement (EPDM), later renamed the Amhara National Democratic Movement (ANDM). This coalition expanded in 1990 with the inclusion of the Oromo People's Democratic Organization (OPDO) and was further consolidated in 1992 when the Southern Ethiopia Peoples' Democratic Front (SEPDF), later restructured as the Southern Ethiopia Peoples' Democratic Movement (SEPDM), joined the coalition (Assefa Lemu, 2018).

According to Bereket Simon(2018), the coalition forces—TPLF, EPDM and OPDO—having successfully dislodged the Derg regime from territories north of Addis Ababa through decisive military operations codenamed "Operation Wallelign" and "Operation Tewodros," launched their final advance toward the capital city. In a coordinated military offensive, the TPLF and its allies launched a three-pronged assault on the Derg regime's last defenses. Their forces advanced simultaneously from the west (through Wollega and Ambo), the northwest (via Gohatsion), and the northeast (from Debrebirhan), converging on the capital in a decisive push that would ultimately topple the government in May 1991 (Bereket Simon, 2018).

With Eritrea's split from its motherland and the rise of a four party coalition, named the Ethiopian People's Revolutionary Democratic Front (EPRDF), to power in May 1991, the *Derg* regime that had choked Ethiopia's political and economic throat with its mighty military grip for nearly two decades came to an end. When the EPRDF assumed power in 1991, it inherited a nation ravaged by nearly two decades of civil war and failed socialist economic policies, leaving Ethiopia poorer than it had been during the final years of the Imperial regime (Lefort, 2015).

Ethiopia's agricultural sector in the early 1990s presented a troubling contradiction: while it formed the backbone of the economy (generating two-thirds of GDP and employing 90% of workers), its productivity had regressed to levels below those achieved during Emperor Haile Selassie's final years (Lefort, 2015). In 1991, Ethiopia's economic structure exhibited severe imbalances resulting from decades of state socialism. The industrial sector contributed a mere 12% to GDP while services accounted for only 23%, reflecting the economy's underdeveloped and state-dominated nature. The private sector remained negligible, with the government controlling virtually all economic sectors (Lefort, 2015).

With the coming to power of the EPRDF in 1991, a significant political and economic reform was deemed necessary by the EPRDF government out of the belief that the country could no longer be able to go through the political and economic strain it had endured for long(Clapham,2019). As a result, the new regime vowed to launch the country on trajectories of three fundamental reforms: democratizing its politics through a multi-party electoral system, liberalizing the economy, and decentralizing the state through a system of "ethnic" or "multinational" federalism (Vaughan, 2015 cited in Lie & Mesfin, 2018, p.9).

Politically, the change was from a top-down, centralized unitary government to a decentralized federal system based on ethnic groups, which was said to be more democratic, decentralized, and participative than previous regimes. The EPRDF justified its political course by arguing that it would end the nation's pandemic disputes by displacing the highly centralized governing structure, which was viewed as repressive primarily by marginalized groups (Kidane Mengisteab, 2019, p.122). It was asserted by the EPRDF regime that it was only a federal system with devolution of power from the center to the periphery along with sustainable democratic system that would guarantee a peaceful process of nation building through the promotion of political, social, economic and cultural rights of all segments of the populace (Kidane Mengisteab, 2019, p.122).

Therefore, out of this ideological conviction, the EPRDF reorganized the country's political map into 9 ethnic-based regional states and two city administrations[4] (Kidane Mengisteab, 2019, p.125). However, these 9 ethnic based regions did not have homogeneous society in them as

[4] The nine regional states are Oromiya, Amhara, SNNP, Tigray, Somali, Afar, Benshangul-gumuz, Gambella and Harari regional states and the two city administrations, Addis Ababa and Dire Dawa

there were over 85 ethnic groups in Ethiopia because of which some authors like Markakis (2011) referred to Ethiopia as "museum of nationalities".

4.2. Ideological basis of the regime: Revolutionary democracy

According to Habtamu Girma (2016) and Assefa Lemu (2019) the term 'ideology' was first coined by the French philosopher Destutt de Tracy in the 18th century to refer to a new 'science of ideas' or a field of study of ideas(Ideo-logy). But through time it had deviated from its original meaning and became a popular term used to define interrelated set of ideas that guides or inspires political action by political groups (Assefa Lemu, 2019).

According to Habtamu Girma(2016), ideology rests on four key principles. First, it is supported by two interdependent legs—political and economic—which are mutually reinforcing and cannot function independently. Second, there is the issue of prioritization: whether the economic leg should march first preceding the political leg or vice versa. Scholars often emphasize the primacy of the economic dimension, arguing that political structures primarily serve to advance the economic interests of the class they represent. Third, every ideology inherently advocates for a specific class, such as capitalism for the industrial bourgeoisie or socialism for the proletariat. Finally, while ideologies can be adapted to align with domestic and global circumstances, their core principles remain unchanged.

'Revolutionary Democracy' as a political project partly emerged from Lenin's reinterpretation of Marx's "dictatorship of the proletariat" thesis, positioning itself in opposition to liberal capitalist ideology (Bach, 2011, p.641). Defying the Marxist's assertion that socialism only emerges out of capitalism; Lenin advocated for and led a mass revolution against feudalism in Russian empire to midwife a socialist USSR. Instituting a 'Proletariat dictatorship', which was considered the anti-thesis of 'parliamentary bourgeoisie democracy', was envisioned instead through a revolutionary 'vanguard party' operating under strict 'democratic centralism' [*hence the name revolutionary democracy*] that prohibited any internal factionalism (Aregawi Berhe, 2008; Bach, 2011, p.641; Angle,2005, p.525; emphasis from the author). According to Angle(2005, p.525), 'democratic centralism' ensures open discussion and critical debate among party leaders during decision-making, but requires strict adherence to final decisions once they are made. This principle allows for thorough deliberation before reaching conclusions, followed by unified action in

implementation. Once a decision is reached, however, 'everyone must implement the decision ... no matter what their view' (Angle, 2005, p.525).

Thus, in this sense, revolutionary democracy has come to be understood as an intermediary stage facilitating the transition from pre-capitalist structures to a socialist order (Angle, 2005).

These discourses had a great impact on what were then referred to as the "Third World" during the cold war, and many African 'liberation' movements adopted revolutionary democracy until the fall of the eastern bloc and ultimately resorted to the western camp of "There is no Alternative to capitalism"(Bach, 2011, p.642).

Tigray People's Liberation Front (TPLF) movement which was among the African movements, initially advocated for Tigrian independence in its 1976 Manifesto, framing its struggle through the Marxist-Leninist lens of national oppression (Merara Gudina, 2003, cited in Bach, 2011, p.642). However, over time, the TPLF shifted from secessionism to a broader Ethiopian revolutionary project, promoting Tigrayan autonomy within a federal Ethiopia rather than outright independence (Merara Gudina, 2003, cited in Bach, 2011, p.642). The Marxist-Leninist League of Tigray(MLLT), founded in the mid-1980s by Meles Zenawi and Abay Tsehaye, and often regarded as the ideological organ of TPLF, was behind the framing of 'revolutionary democracy' as the guiding ideology of the TPLF movement(Bach,2011, p.642; Assefa Lemu,2019). After the overthrow of the Derg regime in 1991, 'Revolutionary Democracy' became the common ideological denominator of the Ethiopian People's Revolutionary Democratic Front (EPRDF) coalition.

Despite the rhetorical buzz of 'revolutionary democracy' as a doctrine by the EPRDF starting from the top party officials down to the rank and file cadres, the essence of 'revolutionary democracy' has not been clearly defined in EPRDF's foundational documents – including its party statutes, political program, and official declarations(Assefa Lemu,2019).

This absence of formal doctrinal clarification and authoritative definition created pervasive ambiguity, leading to divergent interpretations among scholars, opposition groups, and the general public (Habtamu Girma, 2016). Gebru Asrat, a former TPLF veteran, in his book entitled *Lualawinet ena Democracy Be'Ethiopia*, *asserts*:

> *"…..revolutionary democracy is divisive, creating rifts among citizens as 'friends' and 'foes', attaching one group dominant (exploiter) and the other dominated (exploited) on wrong interpretation of the past; the exploiters must be denied of their rights and freedom; every aspect of life, be it political, economic or social should be under the control of the ruling party."* (Gebru Asrat, 2015, p.9 cited in Habtamu Girma, 2019).

Merara Gudina(2016) cited in Habtamu Girma(2019), though narrowly in its political sense, also characterized 'revolutionary democracy' as a system that exhibits a fusion of party and government structures, operating political control through 'democratic centralism' while systematically excluding independent voices through partisan bureaucratic appointments and suppression of autonomous civil society and media.

Habtamu Alebachew, an academician, in his effort to "*settle the accounts of revolutionary democracy after Meles*," just to paraphrase his words, argued that Meles asserted, time and again, that "*revolutionary democracy was a matter of inner party doctrine applicable to its members. No one can find revolutionary democracy in any of constitutional provisions, nor can you find it across all government policy documents*"(Habtamu Alebachew,2007, p.5).

The validity of this argument, however, is fundamentally undermined by the late PM Meles Zenawi's explicit differentiation between 'revolutionary democracy' and liberal democracy, in his undated interview still available on YouTube platform. In his interview remarks, Meles strategically equated 'Revolutionary Democracy' with the developmental state model of the East Asian countries (such as Japan, south Korea and Taiwan), portraying both as alternative pathways for capitalist development that rejected the neoliberal prescriptions of the Washington Consensus. Meles argued the only difference between the Ethiopian and the East Asian version of developmental state is Ethiopia's unique attempt to implement developmental state policies within a democratic framework [*hence revolutionary democracy*] as opposed to the authoritarian version the East Asian model(Meles Zenawi speaking in a YouTube interview available on https://www.youtube.com/watch?v=POU6H-CbKcI. emphasis from the author).

According to Bereket Simon(2018), Revolutionary Democracy represents a dual-process movement combining the revolutionary overthrow of Ethiopia's historically repressive state apparatus with the positive construction of democratic institutions - the revolutionary component addressing the depth of systemic change required, while the democratic component embodies its

ultimate governance aspirations. However, Bach (2011, p.653) argues EPRDF's Revolutionary Democracy was neither revolutionary nor democratic. It was not revolutionary because it failed to deliver radical democratic change despite blaming past regimes' authoritarianism for Ethiopia's political-economic failure and non-stop conflicts. It was not genuinely democratic because its democratic claims were fundamentally undermined by its reliance on 'democratic centralism', which is a top-down decision-making structure where party elites dictated policies while subordinate cadres merely executed directives without meaningful participation of party members let alone the general public(Bach,2011, p.653).

Pulling all the pieces together, including the narratives from the EPRDF, the academia and opposition party leaders, Habtamu Girma(2019) gave EPRDF's 'revolutionary democracy' a unified essence as a process which changed course from its original socialist aspirations post-Cold War, setting the stage to facilitate Ethiopia's transition to capitalism. In the political arena, revolutionary democracy advocates for the respect of group rights to get primacy over individual rights. In its economic front, revolutionary democracy argues that people should attain economic freedom first before exercising liberal democracy (Habtamu Girma, 2019).

4.3. Development Policies under the EPRDF Regime

4.3.1. The Transitional Period and the 'rear guard fight' against neoliberalism (1991-2000)

4.3.1.1. Political transformations

Following the collapse of the *Derg* regime after a 17-year civil war, a transitional government led by the TPLF-dominated EPRDF coalition was formed in Addis Ababa in July 1991(Naude, 1998). Political rather than economic issues were the first preoccupations of the Transitional Government of Ethiopia (TGE) in the transitional period (Tomkinson, 2019, p.73; Batch, 2011, p.655). This was first manifested in EPRDF's dissolution of the *Derg* regime's entire security apparatus, along with 450,000-armed military force, which was subsequently substituted by the EPRDF's own armed forces (Tomkinson, 2019, p.73). Following this, the country had undergone subsequent significant political transformations that were seen as crucial for shaping its future trajectory (Tomkinson, 2019).

The EPRDF, along with other ethnically based political organizations, attributed Ethiopia's political and socio-economic challenges to the historical 'hegemony of a single ethnic group',

notably the Amhara(Medhane Tadesse,2015, p.261; Clapham,2006, p.148), framing its armed struggle as a necessary response to rectify this perceived historical ethnic domination (Zekarias Beshah, 2018; Clapham, 2006, p.148).

Medhane Tadesse(2015, p.261) reinforced this perception further by expressing that:

> *The conviction that Ethiopia's primary contradiction arose from state domination by the Amhara over the country's oppressed nations, including Tigray, was non-negotiable. This argument further concluded that only national (that is, ethnically based) movements could successfully confront the Derg and provide the means for replacing the centralised state with the desired nation-based federation.*

Its proposed solution centered on ethnically based political decentralization, implemented under the ideological framework of 'revolutionary democracy', which was intended to ensure equitable power distribution among Ethiopia's diverse ethnic groups along with its socio-economic dividends (Tomkinson, 2019, p.271; Medhane Tadesse, 2015).

Even though it was argued by many that TPLF/EPRDF adhered to a socialist ideology prior to assuming power in 1991, Bereket Simon, a prominent EPRDF figure who served in key party and government positions, challenged this view in his 2018 book *Tinsae Ze-Ethiopia: Kementa Menged*, asserting that 'revolutionary democracy' was the ideology upon which its political and socio-economic transformations were founded (Bereket Simon, 2018). Medhane Tadesse(2015) notes that while the TPLF initially adhered to a 'pro-Chinese and later pro-Albanian' Marxist-Leninist ideology reflecting Maoist principles of prolonged peasant-led struggle and Albanian-inspired self-reliance, it eventually shifted its ideological approach. The party adapted to a framework of 'revolutionary democracy,' which sought to address the contentious national question through a combination of revolutionary and democratic methods (Medhane Tadesse,2015).

As highlighted above, the EPRDF's diagnosis of the political and socio-economic problems was fundamentally derived from its critique of Ethiopia's historical governance structures which it viewed as being marked by ethnically exclusionary domination and the persistent denial of democratic participation. This systemic marginalization, the party contended, had created profound societal discontent that demanded radical yet democratic solutions (Bereket Simon,

2018). As Bereket Simon(2018) argues, the EPRDF's proposed resolution to these structural disparities involved a dialectical synthesis of revolutionary transformation and democratic institutionalization - an approach designed to simultaneously dismantle the old regimes' entrenched institutions while constructing participatory governance mechanisms.

This conviction resulted in the EPRDF regime instituting an ethnic-based federalism and dividing the country along ethno-linguistic lines which resulted in 9 regional states and two chartered city administrations in 1992 with the later 1995 constitution granting all 'nations, nationalities and peoples' of Ethiopia 'unconditional right to self-determination including the right to secession' (Lyons,2019, p.3 ;Tomkinson, 2019, p.73; Fesseha Mulu & Bizuayehu Daba ,2017, pp.27-28). A multi-party system was also adopted even though Dereje Feyisa (2011, cited in Tomkinson, 2019, pp.73-74) argued that, despite its ideological rhetoric, it had a constrained political agency and emerged primarily from strategic imperatives - particularly the regime's dependence on international legitimacy and financial support from Western nations - rather than genuine democratic commitment.

4.3.1.2. Macroeconomic Stabilization and Structural Adjustment Policies

Following its political consolidation, the EPRDF regime turned back its face and confronted profound economic challenges that characterized post-transition Ethiopia (Tomkinson, 2019, p.74). The nation's economic landscape was marked by widespread poverty, recurrent droughts, war-damaged infrastructure, low productivity, and tight fiscal conditions. Most critically, Ethiopia lacked a viable domestic private sector to lead economic development, forcing the government to adopt interventionist policies to overcome these compounded challenges (Tomkinson, 201, p.739).

Although, as argued by many scholars, TPLF/EPRDF leaders were adherents of Albanian socialism and initially aimed to follow Enver Hoxha's model(Tomkison, 2019, p.72), the transitional government adopted a market-oriented approach due to the stark reality it was confronted with upon taking power in 1991(Labzaé & Planel, 2021, p.74). The socialist bloc, which it had initially adopted as its developmental paradigm, was undergoing global disintegration, creating conditions for the ascendance of neoliberal capitalism (Labzaé & Planel, 2021, p.74; Clapham, 2019, p.44). Medhane Tadesse, a former TPLF sympathizer up until he distanced himself from the movement, noted that "*TPLF leaders who had revered Enver Hoxha*

of Albania only months before triumphantly entering Addis Ababa had to show a great deal of pragmatism and adapt to the changing international context" (Medhane Tadesse, 2015, p.276). Even Meles Zenawi a TPLF chairman at the time, in what appeared to be a primarily tactical maneuver aimed at securing Western support, explicitly declared that he was 'no longer a hard-line Marxist' and would from then on 'work for free enterprise'(Lefort,2015, p.360).

The established transitional government dubbed *Transitional Government of Ethiopia (TGE)* was charged with recovering the war-torn economy as a whole including enduring challenges of poverty, devastation, famine, and stagnant economic growth resulting from the Derg regime's 'flawed policies' (Naude, 1998, p.122; Mekonnen Manyazewal and Admasu Shiferaw, 2019; Arkebe Okubay, 2019, p.613). During this period, it became evident that the country needed a shift from a war-economy to peace-economy and could no longer maintain a centrally planned economy dominated by state ownership (Clapham, 2019; Naude, 1998, p.122). Given the dire need to rebuild the country's economy, which without foreign aid was hardly possible, the EPRDF regime found it inevitable to align somewhat with the neoliberal settlement. Donors were unwilling to support Marxist ideologies, compelling the regime to devise a "New Economic Policy" that compromised its socialist ideals for the demands of foreign donors. Through both practical and theoretical adjustments, the party's leadership navigated a transition away from Marxist-Leninist principles to a market-oriented economic model (Labzaé & Planel, 2021, p.74).

However, the kind of market economy to be adopted by the TGE somewhat differed from the neoliberal one. This is manifested in the TGE's New Economic Policy. Even though the TGE's New Economic Policy(NEP) asserted that "*It is evident that in the past state control over the entire economy was the major cause of economic decline*" (TGE, 1991, p. 17 cited in Naude, 1998, p.132), and that there was the general acceptance to steer away the economy from central planning into market-oriented directions, it paradoxically proclaimed that "*State ownership of industry will be limited to a selected number of key establishments that are essential for the development of the economy"*(TGE, 1991, p.27). There were also other inconsistencies with the NEP policy document as far as market-oriented economic policy approach is concerned. The first inconsistency is that, even though the TGE's stance towards foreign investment is welcoming, it was limited to those investors who were "*to engage themselves in those activities in which the state or domestic investors are, for one reason or another, unable to invest*" (TGE,

1991, p.29) and that the policy document was explicit in asserting that "*domestic capital should be given priority over foreign capital*" (TGE, 1991, p. 29).

The second thing that made the TGE's approach inconsistent with the free market view is its assertion in the policy document that "*in order to stabilize prices the state may engage itself in the wholesale trade of basic goods of mass consumption*" (TGE, 1991, p.31). This policy stance shows the state would continue to compete against private competitors through its public owned enterprises which the free market economy is at variance with for its theoretical claim of price distortions and the resulting inefficient resource allocation as claimed by the neoliberal view reviewed in chapter two.

The third inconsistency was the TGE's approach towards land ownership which stated that "*until the issue is settled by a referendum after the transition period, there will be no changes in the policy of public ownership of land"* (TGE, 1991, p.21). Given the fact that the market-oriented economy is in line with the principles of the right to property ownership including land, this reluctance by the TGE to privatize the land was surely paradoxical.

All these stances promoted by the TGE were beyond doubt at variance with the free market view the regime said it would steer the centrally planned economy into. This was not due to the lack of understanding of the demands of a market-oriented transition rather from its deliberate defensive approach against the market-fundamentalist neoliberal economic orientation.

This was also evidenced by the late Prime Minister Meles Zenawi's 2010 interview with Alex Dewaal cited in Tomkinson(2019, p.78). In his remark, Meles said:

> *For the first ten years after we took over, we were bewildered by the changes. The New World Order was very visible and especially in this part of the world. The prospect of an independent line appeared very bleak. So we froze the party. We fought a rearguard war not to privatize too much. We sent delegations across Africa to ask, how to handle the IMF? They said, 'say what they want you to say and do what you can get away with'. We said, 'we are a mass movement and cannot mislead the masses, we cannot do that'* (Meles Zenawi speaking in 2010, quoted in De Waal, 2015, pp. 161–162).

Therefore, one can deduce from this that the type of market economy to be followed was not the rigid neoliberal one characterized by market-fundamentalism, but rather a calibrated mixed economy where the state exercises selective intervention in strategic sectors to fine-tune economic policies to the contextual reality of the country.

The main focus of the transition period was lifting up the economy from the quagmire of stagnation and post-war devastation, as the EPRDF '*inherited an economy devastated by years of civil war and . . . a GDP per capita lower than in the 1960s*' (World Bank, 2002, p. 5 cited in Arkebe Okubay, 2019, p.611). In line with this recovery phase, the Transitional Government of Ethiopia (TGE) developed a Policy Framework Paper (PFP) aligned with IMF and World Bank prescriptions, as these institutions made their financial support contingent upon Ethiopia's adoption of Structural Adjustment Programs (SAPs) in 1993 (Tomkinson, 2019, p.72; Labzaé & Planel, 2021, p.74; Arkebe Okubay, 2019, p.612). These SAPs comprised comprehensive 'Washington Consensus' stabilization-cum-liberalization reforms, including currency devaluation, financial sector restructuring, privatization initiatives, and legal overhauls of investment, labor, contract, and bankruptcy regulations(Tomkinson, 2019, p.98) . In fact, throughout the first decade three SAP economic reforms were implemented. The first reform took place between 1992/3-1994/5 aimed at liberalizing different markets. The second phase of the economic reforms was conducted between 1994/95–1996/97 with the aim of limiting the role of the state in the economic activity. The third economic reform was between 1996/97–1998/99 under the rubric Enhanced Structural Adjustment Facility (ESAF) which aimed at achieving broad-based economic growth in a stable macroeconomic environment, while the liberalization measures were further deepened (Mulu Gebreeyesus, 2016, p.30;Mekonnen Manyazewal, 2019, p.180). The ESAF program was, however, interrupted after the first year of its implementation due to irreconcilable policy disagreements between the Ethiopian government and IMF regarding reform implementation priorities(Mekonnen Manyazewal,2019, p.180) revealing fundamental tensions between the EPRDF's state-led development approach and the IMF's orthodox stabilization agenda.

However, even though the regime adopted SAPs, it was sluggish in translating the adjustment plans into practice (Arkebe Okubay, 2019, p.612). Labzaé & Planel (2021, p.76) highlight that the adoption of adjustment plans in this context varied from Sub-Saharan African cases in both

timing and scope. They contend that the process appeared "*more about negotiating a smooth exit from a socialist economy than it was about liberalizing markets and organizing the rolling back of the state*" (Labzaé & Planel, 2021, p.74).

Following the adoption of SAPs, therefore, the first step by the TGE was devaluing the currency from birr 2.07 per US dollar to birr 5 per US dollar, adjusting interest rate ceilings upwards to positive real rates, lifting taxes on exportable goods with the exception of coffee, which all were macroeconomic stabilization components of the SAPs (Naude, 1998, p.129; Bereket Simon, 2018).

The privatization process under SAPs also followed a gradualist approach, with the government prioritizing non-profitable state-owned enterprises, particularly unproductive state farms established during the *Derg* era, as these presented fewer political and economic obstacles (Labzaé & Planel, 2021, p.74). Arkebe Okubay (2019, p.612) documents the privatization of over 300 enterprises, predominantly acquired by domestic private investors. However, the government adopted a selective approach: large-scale enterprises like breweries were sold to foreign investors to generate foreign exchange, while strategic sectors (utilities, aviation, chemicals, and sugar) remained under state control. In support of the protracted privatization process, Bereket Simon (2018, p.57) notes that "*it took over twenty-three years to privatize not more than 300 public enterprises. This demonstrates the government's capacity to control the policy-making process and maintain its own policy space in spite of the [IFIs'] drive for privatization*" (translated from Amharic by the researcher from Bereket Simon, 2018).

The financial sector, including banking and insurance, was partially liberalized but restricted to domestic private investment (Bereket Simon, 2018). Following the banning of the financial sector to foreign investors, the EPRDF regime had frequent clashes with the IMF officials as evidenced by Stiglitz (2002, p. 32) quoted in Arkebe Okubay(2019, p.612):

> *Meles was engaged in a heated dispute with the IMF, and the Fund had suspended its lending program . . . Ethiopia resisted the IMF's demand that it "open" its banking system, for good reason . . . The IMF was unhappy, simply because it believed interest rates should be freely determined.*

4.3.1.3. Coping with the IFIs' policies by other means

However, the regime's structural adjustment efforts fell short of International Financial Institutions' (IFIs) requirements, as more comprehensive reforms were considered essential to sustain donor trust and guarantee continued support(Labzaé & Planel, 2021). To address these IFI-imposed conditions, the EPRDF government developed a distinctive privatization approach, transferring state-owned enterprises to politically affiliated "endowment funds" rather than implementing conventional privatization methods (Labzaé & Planel, 2021, p.75). These endowment funds functioned as private investment vehicles controlled by the central-committee of the four EPRDF branches. This arrangement essentially transferred state assets to the ruling party's inner circle while maintaining the appearance of privatization (Berhanu Abegaz, 2013; Vaughan and Gebremichael, 2011, p.6).

Berhanu Abegaz(1999) cited in Tomkinson(2019, p.92) noted that, by the late 1990s, endowment-owned enterprises had established a significant presence across six key economic sectors: agriculture (4 companies), finance and trade (7 enterprises), industry and mining (8 companies), construction (3 firms), transportation (3 companies), and services (2 enterprises). According to Berhanu Abegaz(2019), the most prominent of the EPRDF-affiliated conglomerates was the Endowment Fund for the Rehabilitation of Tigray (EFFORT), established in 1995 under the ownership of the TPLF. It stood as the largest economic entity among these party-owned enterprises, boasting the most substantial assets, the widest network of subsidiaries, the most extensive sectorial reach, and operations extending beyond regional boundaries (Berhanu Abegaz, 2019, p.3). The EPRDF's junior coalition partners similarly maintained their own diversified commercial ventures - including banking institutions - though of comparatively smaller scale which included *Tiret*(Endeavour) by the [ANDM], Tumsa Endowment of [OPDO] and Wondo Group by [SEPDM](Berhanu Abegaz,2019, p.3).

Another significant player in Ethiopia's economic landscape was the military-owned Metals and Engineering Corporation (METEC), which emerged as a major economic force controlling approximately 75 industrial facilities (Berhanu Abegaz, 2019, p.74). This military-industrial complex represented a parallel structure of economic control, complementing the party-owned endowment conglomerates in dominating strategic sectors of the national economy (Labzaé & Planel, 2021, p.76).

Other than party-affiliated companies, private businesses were also instrumental in controlling the national economy. A prime example was the multinational conglomerate MIDROC (Mohammed International Development Research and Organization Companies), owned by Ethiopian-Saudi billionaire Mohammed Hussein Al Amoudi, which emerged as one of the major beneficiaries of the privatization process (Labzaé & Planel, 2021, p.77; Clapham, 2017, p.9). According to Labzaé & Planel(2021, p.77), the Sheikh's conglomerate (MIDROC) had amassed a vast economic empire through numerous opaque government contracts, controlling Ethiopia's largest gold mine (Legedembi), dominating the construction sector through companies like Dil Paints, Vision Aluminium, and Kombocha Steel Products, and establishing the nation's first private university (Unity University). The group's sprawling interests extended across real estate (Huda Properties, Modern Building Industries), agribusiness (Jittu and Wushwush tea estates, Saudi Star farms), and consumer sectors (Moha Soft Drinks), along with multiple hotel properties - making it one of the most diversified private economic actors in Ethiopia through preferential access to privatized assets and government contracts(Labzaé & Planel, 2021, p.77).

4.3.1.4. Agricultural Development-Led Industrialization Strategy (ADLI)

The combination of macroeconomic stabilization and structural adjustment reforms with post-conflict stability set Ethiopia's economy on a recovery trajectory in the early 1990s. Complementing these measures, the regime introduced its Agricultural Development-Led Industrialization (ADLI) strategy in 1993 as a comprehensive development framework (Mekonnen Manyazewal & Admasu Shiferaw, 2019, p.144).

This strategy pursued a dual transformation: first, by boosting smallholder agricultural productivity through improved access to modern inputs, extension services, and rural infrastructure (particularly roads); and second, by leveraging these agricultural gains to stimulate industrial growth, particularly in agro-processing sectors that capitalized on Ethiopia's natural comparative advantages(Mekonnen Manyazewal & Admasu Shiferaw, 2019, p.144). The ADLI framework thus represented a deliberate sequencing of development, where agricultural modernization served as both the foundation and catalyst for subsequent industrial take-off, while addressing immediate poverty concerns through its focus on smallholder productivity growth (Dercon&Gollin, 2019, pp.453-454).

The Ministry of Planning and Economic Development (1993, p.5), as cited in Dercon and Gollin (2019, p.454), explicitly states that "agriculture should be the starting point for the structural transformation of the economy" positing that agricultural development must serve as the foundational driver of economic transformation. This developmental approach had both economic and political roots.

From the economic point of view, it took into account the country's structural economic realities, where agriculture accounted for approximately 80% of total employment and generated 71% of export earnings at the strategy's inception (Dube et al., 2019, p.193). This approach was also grounded in the strategic premise that industrial growth should be primarily stimulated by domestic rather than foreign demand (Dercon and Gollin, 2019, p.454). By focusing on enhancing smallholder agricultural productivity, the policy sought to raise rural incomes, thereby generating increased demand for domestically produced industrial goods and creating a self-reinforcing cycle of agricultural and industrial development (Dercon and Gollin, 2019, p.454). According to Lefort(2012, p.682) and Dube et al.,(2019, p.193), while the ADLI strategy envisioned a mutually reinforcing transformation between agriculture and industry, its fundamental objectives were threefold: (1) the immediate alleviation of absolute poverty through smallholder-focused agricultural growth, (2) achieving national food security and self-sufficiency and (3) the gradual structural shift toward industrial dominance in national GDP composition. This triads reflected Ethiopia's distinctive developmental sequencing, where agricultural modernization served as both a poverty reduction mechanism and a transitional platform for eventual industrial sector take-off (Dube et al., 2019, p.193).

To this end and as a continuation of the TGE's gradual shift from a command to a "market-led economy", the rural sector had to be first liberalized. The smallholder agriculture, which was seen as the economy's foundation, was freed from state controls through the dismantling of the Derg's policies which dictated production, pricing, and sales (Bereket Simon, 2018). Large-scale commercial farming was also rejected due to concerns over labor displacement and the lack of urban industrial capacity to absorb displaced workers, opting instead to boost smallholder productivity through labor-intensive technologies to generate surpluses for agro-processing (Bereket Simon, 2018).

Politically, the main reason to follow an agricultural-led industrial development, was the fact that the EPRDF coalition, particularly its dominant TPLF faction, strategically anchored its political legitimacy in rural constituencies, necessitating agricultural-focused development strategy like ADLI that served dual purposes: rewarding its peasant support base while operationalizing its 'revolutionary democratic' ideology that regarded the rural population as agents of transformation (Lefort,2015;Clapham, 2017, p.6). This rural political economy reflected both pragmatic power calculations - given that over 80% of Ethiopians depended on agriculture (Dube et al., 2019, p.193)) - and ideological commitments from the coalition's Marxist roots, which viewed peasant mobilization as central to its revolutionary project (Clapham, 2017, p.6).

Consequently, ADLI became more than an economic strategy; it functioned as a mechanism of political control through agricultural extension services, input distribution networks, and credit systems that deepened patron-client relationships between the regime and rural communities. As scholars like Lefort (2012, p.681) and Vaughan (2011) demonstrate, this approach allowed the regime to consolidate its hegemony by simultaneously delivering material benefits to its core constituency while systematically marginalizing urban opposition forces, making agricultural transformation both an economic imperative and a tool of political reproduction. The policy's design thus intrinsically reflected the ruling coalition's need to maintain its rural power base while pursuing structural economic change, embedding what was essentially a political survival strategy within a framework of developmental rhetoric(Lefort, 2012, p.681; Vaughan, 2011).

4.4. Resorting To A New Model: The 'Developmental State' Model

4.4.1. Factors Leading To the Adoption of the New Model

The 1990s represented Ethiopia's stabilization and structural adjustment decade, marking a transitional period between the socialist *Derg* regime and the EPRDF's 'developmental state' model. The Ethiopian economy consequently emerged from the stagnation characteristic of the *Derg* period (1974-1991), entering a phase of robust recovery throughout the 1990s that transitioned into accelerated growth beginning in the early 2000s (Mekonnen Manyazewal and Admasu Shiferaw, 2019, p.146; Bereket Simon, 2018).

Even though the first decade of the EPRDF regime kept the country going on a slight recovery trajectory with a 5 percent average economic growth rate(Bereket Simon,2018), two pivotal

political shocks in the early and mid-2000s compelled the EPRDF to fundamentally reconsider its decade-long political-economic trajectory(Clapham,2017, p.5). The first emerged from the 2001 intra-TPLF power struggle, where Prime Minister *Meles Zenawi* emerged victorious and consolidated control by purging rival factions - particularly the "statist-Marxist" wing led by *Siye Abraha* and other veterans (Tomkinson, 2019, p.107; Lefort, 2015).

According to Labzaé & Planel(2021, p.78) and Bereket Simon(2018), the split was caused by differences over the way the Ethio-Eritrea border conflict had to be handled. The hard-liners wanted to invade Eritrea and were determined to oust the regime in Asmara while the soft-liners led by Meles Zenawi wanted a smooth way out. Quoted in an interview with Dewaal (2015), Meles affirmed he was against the war in the first place. He was quoted as saying "…*The war was started by idiots in Eritrea, but the response was equally stupid. We were more interested in protecting the interests of some groups than in the strategic national interest*" (Meles Zenawi speaking in 2010, quoted in De Waal, 2015, pp. 161–162, cited in Tomkinson,2019).

Other than the accusation that Meles was soft on Eritrea, there were also other factors which led to the schism of the TPLF party. According to Prunier(2015) and Bereket Simon(2018), there was both an accusation and opposition by the left-leaning faction of the TPLF that EPRDF was deviating from socialist orientation into 'white capitalism' of the west. Meles was even considered as an agent of the United States (Prunier, 2015). De Waal(2012, p.152) substantiating these accusations wrote: "*Meles' adversaries accused him of selling his revolutionary soul to imperialism and serving Eritrea at the expense of Ethiopia. Meles won by the skin of his teeth – just two votes in the Central Committee of the TPLF*".

After the war was concluded, the TPLF faction led by Meles "*felt that the conflict seriously undermined economic development upon which the future of Ethiopia depended*"(Medhane Tadesse, 2015a, p. 279) and used it as a justification to purge the opponents by denouncing their "bonapartist tendencies" (Labzaé & Planel, 2021, p.78). Bereket Simon (2018) also asserted that the Ethio-Eritrea war had very serious economic repercussions. He noted that "*The government which was left with a next-to-nothing foreign reserve from the Derg regime had managed to amass roughly 900 million USD only to be wasted on the Ethio-Eritrea War*"(Bereket Simon,2018, p.59; roughly translated from Amharic by the researcher).

The second political shock came during the 2005 national elections, when opposition parties secured a sweeping victory in Addis Ababa, stripping the ruling EPRDF off all parliamentary seats in the capital (Lefort, 2015). More broadly, opposition groups captured 174 out of 547 seats in the federal parliament, reducing the EPRDF to a contested 327-seat majority amid widespread allegations of electoral irregularities (Gilkes,2015; Prunier, 2015 cited in Tomkinston,2019, p.113). Following the election results, the opposition parties cried foul and the supporters of the opposition took it to the streets which was received with a strong security crackdown leading to many civilian casualties and the arbitrary detention of key opposition leaders (Lefort, 2015; Aalen & Tronvoll, 2009 cited in Tomkinston, p.113). The fragmentation of opposition forces created a strategic opening for the EPRDF, enabling the ruling regime to expedite the opposition's political collapse. The regime at the same time held a series of public meetings hoping for "forgiveness" and reclaiming political capital (Tomkinson, 2019, p.113).

These shocks, according to Vaughan (2015), made a lasting impression on EPRDF and were important in the reorientation of the EPRDF's long-term political and economic development strategy. While the 2001 TPLF schism exerted greater long-term influence on the EPRDF's fundamental reconfiguration of political and economic strategies (Vaughan, 2015, p.304), the 2005 electoral crisis marked a pivotal turning point in Ethiopia's developmental trajectory (Tomkinson, 2019, p.113). The political legitimacy to be gained through "democratization" under the rubric of 'revolutionary democracy' was at stake after the 2005 election crisis, and another basis for legitimacy had to be crafted and this was through economic performance (Lefort, 2015; Clapham, 2019, p.45; Abiy Ahmed,2019).

Therefore, the Ethiopian 'developmental state' project was carved out after the 2001 TPLF party schism as a way out of this happenstance (Fana Gebresenbet,2014, p.71) and further entrenched by the post-2005 election crisis as an overarching national development goal (Clapham, 2019, p.45; Fana Gebresenbet,2014). This reorientation of development strategy, while applauded by some, however, was seen by other skeptics as a 'guise to stay in and consolidate power as there was also a new rhetoric of building a 'dominant political party' after the 2005 election as opposed to the previous rhetoric of 'multi-party system"(Fana Gebresenbet,2014, p.66).

4.4.2. Articulating the Model

Having resisted neoliberal reforms throughout the 1990s through a defensive development approach, the EPRDF later embraced what it dubbed the 'Democratic Developmental State' (DDS) model in the early 2000s(Tomkinson,2019). This notion of 'democratic developmentalism' emerged as a hybrid ideology from the merger of 'revolutionary democracy' and 'developmental state' as it became evident later that the EPRDF's legitimacy from democracy through revolutionary democracy loses its currency and developmental results became the new vehicle for political legitimacy(Gutu Olana,2021, pp.90-91).

According to Clapham(2017, p.1155), this Ethiopian developmental state model was based on emulation of the East Asian developmental state model "*with China as the single most important source of inspiration, but seeking to learn, where appropriate, from other cases as well, including South Korea, Taiwan, and Japan*". According to de Waal (2012), as cited in Chang and Hauge (2019), Meles Zenawi, the very architect of the Ethiopian DS model explicitly looked to the East Asian developmental state models, particularly South Korea and Taiwan, as primary sources of inspiration for his own developmental state framework. This was also substantiated in Meles'(2006) Master's thesis entitled, *African Development: Dead Ends and New Beginnings*, where he explicitly identified Taiwan and South Korea as exemplary developmental models. Meles Zenawi(2006, p.19) stated that:

> *Taiwan and Korea are without doubt the most successful of all developing countries in terms of achieving successful development over the past 50 years. They have had the highest sustained growth rates (with the exception of China over the past few decades). They have had the most equitable growth of all developing countries.*

Despite lacking a clearly articulated developmental framework during its initial decade in power, the EPRDF managed to maintain its policy autonomy (Bereket Simon, 2018). Asked why the developmental state model was a decade late for implementation, Meles Zenawi quoted in DeWaal(2012, p.12) also said: "*for the first ten years after we took over, we were bewildered by the changes. The New World Order was very visible and especially so in this part of the world. The prospect of an independent line appeared very bleak. So we fought a rearguard action not to privatize too much*" (Meles Zenawi quoted in DeWaal, 2012, p.12).

Beyond the two internal shocks discussed above that prompted the EPRDF regime to shift toward a developmental state, the conviction that neoliberalism had reached a 'dead end' and necessitated a 'new beginning' as argued by the Ethiopian PM Meles Zenawi(2006), was central to framing the developmental state model as a viable alternative not just for Ethiopia's but also Africa's development. In his articulation of the 'developmental state' model, Meles Zenawi (2006) positioned it as an essential framework for achieving Africa's renaissance, arguing that African nations must pursue an alternative to orthodox neoliberalism, which he deemed a failed paradigm. Arguing that markets are pervasive in developing countries, he rejected the neoliberal role of the state as a mere night-watch man only standing at the gate to enforce contracts and property rights. He instead advocated for an interventionist state capable of strategically steering economic transformation.

He fundamentally challenged the neoliberal comparative advantage argument asserting that African development cannot be achieved through static factor endowments alone. He contended that sustained technological accumulation, infrastructure development, human capital development which are prerequisites for structural transformation, require deliberate and massive state intervention as these are the areas that are undersupplied by markets in developing countries.

In his articulation of the developmental state, Meles(2006, p.9) positioned agriculture as the critical engine of initial development, arguing that its significance extended beyond direct GDP contributions to serving as the essential catalyst for broader structural transformation. He emphasized its dual role: (1) generating surplus for industrial investment through productivity gains, and (2) creating demand linkages that stimulate non-agricultural sectors.

Asserting the significance of creating conducive political environment, he argued that "*development is a political process first and economic and social process later. It is the creation of a political set-up that is conducive to accelerated development that sets the ball of development rolling*" Meles Zenawi (2006, p.9).

The kind of developmental state that should be followed is also given due attention. In his articulation, Meles Zenawi argued that African countries should opt for building a democratic developmental state. While acknowledging substantive critiques of democratic governance,

particularly its potential to (1) divert state focus from growth priorities through competitive politics ("the hustle of democracy") and (2) undermine policy continuity through electoral cycles, Meles proposed coalition-building as an institutional solution. Drawing comparative lessons from Scandinavia's labor-middle class alliances and Japan's rural-conservative coalitions which enabled them to stay in power for long through a democratic means; he argued that developmental regimes in Africa could achieve remarkable policy continuity when anchored in robust socioeconomic coalitions with the rural populations creating dominant party or dominant coalition democracy that could transcend electoral cycles. Meles contended that African countries should embrace democracy not just for getting adequate policy rent or its appeal as a form of governance, but most importantly because their ethnic fragmentation makes it an imperative for their very survival. In a panel discussion of World Economic Forum held at Addis Ababa in 2012, Meles Zenawi was quoted as saying:

> *My view is that there is no direct relationship between economic growth and democracy, historically or theoretically. But my view is that democracy is a good thing in and of itself irrespective of its impact on economic growth. And my view is that in Africa, most of our countries are extremely diverse, that [democracy] maybe the only possibility, the only option of keeping relationships within nations sane. Democracy may be the only viable option for keeping these diverse nations together. So, we need to democratize, but not in order to grow. We need to democratize in order to survive as united sane nations. That's my view. But I don't believe in bed time stories and contrived arguments linking economic growth with democracy. There is no basis for it in history; and in my view, no basis for it in economics, and there is no need to have this contrived argument because the case for democracy can stand and shine on its own* (Meles Zenawi speaking at World Economic Forum panel discussion held in Addis Ababa, 2012*).*

Therefore, the 2001 intra-TPLF friction that led to its vertical split, the post-2005 election crisis and the ideological rejection of neoliberalism as a 'dead-end' by EPRDF regime, could be said to have served as a basis for the articulation of an alternative development model dubbed Democratic Developmental State(DDS) which was inspired by the East Asian Authoritarian Developmental State(ADS).

4.4.3. Securitization of Development and Framing poverty as an existential threat

The "developmental state" rhetoric became a party obsession after 2001 and well into 2005 (Fana Gebresenbet, 2014, p.68). Taking inspiration from East Asian developmental states, especially South Korea and Taiwan, which used the external threat of communism to justify state intervention to build their economy for military ends (Woo-Cumings, 1999; Meles Zenawi, 2006, p.21), the EPRDF similarly framed poverty as Ethiopia's top national security threat(Fana Gebresenbet, 2014, p.67). According to Bereket Simon(2011, cited in Fana Gebresenbet,2014, p.69), the victorious EPRDF faction in 2001 framed Ethiopia's existential threat as internal poverty rather than external enemies like Eritrea. Meles Zenawi, in an interview with De Waal(2012, p.154) also explicitly securitized poverty as an existential threat to national survival, asserting *"I am convinced that we will cease to exist as a nation unless we grow fast and share our growth"*. In a press conference he once held, Meles even equated poverty as a crime. The FDRE Foreign Affairs and National Security Policy and Strategy, published in 2002, clearly stated that Ethiopia's security threat mainly emanates not from the outside but from within. It explicitly puts poverty as an existential threat and all the other security issues are of secondary importance. Asserting that all other security issues of the country come second to poverty and the main war is the war against poverty, the policy document reads:

> *The danger is that widening poverty may lead to our collapse and that the absence of democracy and good governance may result in bloodshed and destruction. This threat can be removed through overcoming poverty through development and economic initiative. It is only when we build a strong economy that we can effectively defend ourselves from external threats*."(FDRE Foreign Affairs, 2002, pp.28-29)

Therefore, development securitization was determined to be one national endeavor that needed to bring the country together transcending all differences and serve as the foundation for its internal integrity and security (Clapham, 2017, p.5).

As a result, the country was discursively mobilized into what resembled an all-out war was waged on poverty. Poverty was labeled as the "true ever enemy of the nations, nationalities and peoples of Ethiopia"(Meles Zenawi quoted in Matiyas Fantaye,2024, p.6) that Ethiopians in unison needed to wage war against and defeat, mirroring the historic collective victory against colonial forces at the Battle of Adwa. Anti-poverty campaigns and 'baptizing' everything in the

name of the developmentalism, exemplified by the pervasive use of 'developmental' prefixes like *Limatawi Balahabt*, *Limatawi Mihur*, *imatawi Gazetegna* etc became the order of the time*(*Matiyas Fantaye,2024, p.6; Ziso,2018).

To address the enduring challenge of poverty that had long characterized the nation, the Agricultural Development-Led Industrialization (ADLI) strategy, implemented throughout the 1990s, was later augmented by a series of complementary development policies and strategies (Teklie Tesfamariam, 2021, p.5). Full-fledged and comprehensive policies and strategies such as Rural development policy and strategy(2002/03), Industrial development strategy (IDS) (2002/03), Foreign Affairs and National Security Policy and strategy(2002/03), Capacity Building and Strategy Programs(2002/03), Land Management and Administration Policy(2009/10) etc. were formulated and put into implementation.

4.5. Post-2000 development policies and strategies

4.5.1. Rural Development policy and strategy (RDPS)

The introductory part of the Rural Development Policy and Strategy which was introduced in 2002/03, clearly defines as to what basic objective there is as far as economic growth is concerned. The goal is to secure a rapid economic growth that benefits everyone at every social stratum and overcomes aid dependency, ultimately establishing a developed market economy (FDRE RDPS, 2002; Tewelde Gebreselasie, 2015). And to realize that putting in place a sound rural development policy and strategy within the framework of ADLI was deemed important. In the rural development policy and strategy document, it's asserted that labor intensive rather than capital intensive development approach is to be followed given the country's comparative advantage on labor and land as opposed to the limited capital the country is endowed with. And the only sector that could accommodate the abundant labor is found to be the agriculture sector. The document further elaborates on land holding policy which says it is enshrined in the constitution for its strategic political economic role it plays. The policy reaffirmed state ownership of land—a constitutional mandate due to its political-economic significance—with regional governments administering land on behalf of the public (FDRE RDPS, 2002).

4.5.2. Industrial Development Strategy

The EPRDF's 2002/03 Industrial Development Strategy (FDRE IDS, 2002) reaffirmed Ethiopia's commitment to a market economy while emphasizing industrialization as pivotal. It outlined a tripartite approach: (1) agriculture-led industrialization, (2) export-oriented manufacturing, and (3) labor-intensive production - all centered on private sector growth with government guidance. The strategy prioritized agro-processing industries as key development sectors, leveraging Ethiopia's comparative advantages in agricultural inputs and labor abundance. These industries were envisioned to: (1) create backward linkages with agricultural production, (2) generate employment through labor-intensive processing, and (3) foster broad-based societal participation in industrialization (FDRE IDS, 2002). These key strategic sectors included textile and garment production, meat, leather processing, other agro-industries (including sugar manufacturing), construction materials, and micro/small enterprises (Mulu Gebreeyesus,2016, p.12).

Based on these sectorial and sub-sectorial policies and strategies and the comprehensive ADLI strategy, three to five year plans (poverty reduction strategy papers (PRSPs)) were prepared and began to be implemented. These included the Sustainable Development and Poverty Reduction Program (SDPRP, 2001/02–2004/05), the Plan for Accelerated and Sustainable Development to End Poverty (PASDEP, 2005/06–2009/10), and the successive Growth and Transformation Plans (GTP I: 2010/11–2014/15 and GTP II: 2015/16–2019/20) (Mulu Gebreeyesus, 2016, p.31).

SDPRP prioritized infrastructure development focusing on expanding road networks, clean water access, irrigation systems, electricity, and telecommunications (Seid Nuru, 2019). Building on ADLI's labor-intensive agricultural development framework, the strategy pursued poverty reduction, food security, and growth through increased commercialization, intensive farming technologies, and microfinance access to expand export-oriented agriculture. Simultaneously, it enhanced education (e.g., TVET programs) and strengthened rural cooperatives to integrate smallholders with non-agricultural private sectors (OECD&PSI, 2020).

Over the program's three-year implementation period, significant progress was achieved: Road infrastructure expanded from 33,297 km in 2002 to 37,018 km in 2005, increasing road density from 32.3 km to 33.6 km per 1,000 km². Electricity generation capacity nearly doubled, rising

from 473 MW in 2002 to 791 MW in 2005, reflecting substantial improvements in energy infrastructure (OECD&PSI, 2020). By the conclusion of the SDPRP in 2005, Ethiopia's economic growth rate surged dramatically, exceeding 13 percent for the first time (Tomkinson, 2019). The country's GDP per capita which was quite low (US$125) at the beginning of this economic plan, had increased to almost US$205 by the end of the plan (Tassew Woldehana and Mesele Araya, 2019).

The PASDEP marked a strategic shift in agricultural policy, transitioning from an exclusive focus on smallholder subsistence farming to incorporating larger-scale commercial farming. This revised approach emphasized three key pillars: specialization of crops, diversification of production, and increased market-oriented commercialization (OECD&PSI, 2020).

Under PASDEP, Ethiopia's road network expansion program aimed to construct approximately 20,000 kilometers of new roads by the end of the plan period 2010. Notably, 90% of these planned road projects were prioritized for rural areas, reflecting the government's focus on improving rural connectivity and accessibility as a means of poverty reduction (Seid, 2019). The Universal Electrification Access Program (UEAP), which prioritized rural electrification, was also a key infrastructure initiative under PASDEP. The program targeted over 6,000 rural towns and villages nationwide, with the potential to provide electricity access to approximately 24 million people (Seid Nuru, 2019). While the SDPRP prioritized rural development, the subsequent PASDEP adopted a more comprehensive approach by incorporating urban and industrial sector growth. This policy shift coincided with Ethiopia's economic acceleration, which achieved sustained double-digit GDP growth from 2004 onward (Mulu Gebreeyesus, 2016). The expansion reflected the government's recognition of urbanization and industrialization as complementary drivers of structural transformation (Mulu Gebreeyesus, 2016).

The PASDEP emphasized strengthening rural-urban connectivity through small-town development, specifically proposing 600 new towns of 20,000 inhabitants each as spatial-economic bridges (MoFED, 2006). By 2012, this target was surpassed, with over 700 such towns established, reflecting the policy's implementation success in creating intermediate urban centers (MoFED, 2006). During this economic plan, the three main sectors of the economy —

agriculture, industry and services — have all seen robust growth, with respective growth rates of 8.4%, 10%, and 14.6% (Tassew Woldehana and Mesele Araya, 2019).

The third major economic blueprint, the Growth and Transformation Plan (GTP-I), was launched in 2009/10 to drive structural economic transformation through massive public infrastructure investments. This economic plan prioritized transformative infrastructure connectivity to drive industrialization, featuring strategic megaprojects like the Gibe III and GERD dams, Addis Ababa's Light Rail Project, and national railway and expressway networks (Seid,2019). GTP I expanded upon PASDEP's framework by explicitly incorporating industrialization as a driver of structural transformation. The plan emphasized urban-industrial development to absorb Ethiopia's growing labor force, prioritizing: (1) labor-intensive MSEs for agricultural value-addition and economic linkages, (2) dual industrial strategy combining import substitution and export-oriented manufacturing, and (3) urban infrastructure investments (low-cost housing, employment programs) to support urbanization (MoFED, 2010). This plan yielded significant results, with GDP per capita doubling from USD 373 in 2009/10 to *USD* 725 in 2014/15(Tassew Woldehana and Mesele Araya, 2019, p.330).

The subsequent GTP-II (2015/16 to 2019/20) further prioritized structural economic reform and industrial development, building on these gains (Tassew Woldehana and Mesele Araya, 2019). Under this economic plan, the Ethiopian government prioritized sustainable and green economic development alongside creating a skilled workforce to drive long-term, competitive growth. This strategic focus aimed to propel Ethiopia toward lower-middle-income status by 2025 (WB, 2013 cited in Tassew Woldehana and Mesele Araya, 2019). GTP II pursued dual agricultural-industrial transformation by: (1) prioritizing high-value/export crops and industrial inputs alongside rural institutional reforms (e.g., land certification for 7.2 million households, irrigation expansion, and private-sector engagement); and (2) positioning Ethiopia as Africa's light manufacturing hub through strategic urban infrastructure and housing programs to harness urbanization-industrialization synergies (NPC, 2016).

4.5.3. Development Financing

As attempted to explain above, poverty was identified as an existential threat and its eradication came to be a central national agenda. This overriding objective is behind all the development

strategies and sectoral policies adopted since 1991(Mekonnen Manyazewal, 2019). To realize the ADLI strategy guiding all other sectoral development strategies and policies and economic plans, the GoE used development financing mechanism both domestic and foreign.

Ethiopia's resistance to IMF policy conditions, including banking sector liberalization, foreign competition, and interest rate deregulation, viewing them as threats to national policy sovereignty (Stiglitz, 2002), and the disputes over aid allocation (reserves vs. social infrastructure), highlighted Ethiopia's fiscal vulnerability as an aid-dependent state(Mekonnen Manyazewal,2019, p.180). This reinforced the government's focus on domestic revenue mobilization and export diversification to reduce external reliance (Mekonnen Manyazewal, 2019, p.180).

According to Yohannes Ayalew(2019, p.160), Ethiopia faced a demonetization problem between 2004 and 2010 due to the non-performing loans mounting up till 2003 and the tight monetary policy the country followed between 2006 and 2008 following the international food prices crises. This trend was reversed following the launching of GTP I in 2011 where the government started to play an active role in financial sector development (Yohannes Ayalew, 2019, p.160). As a result, significant tax reforms, including the automation of tax administration systems and the introduction of value-added tax (VAT), designed to expand the tax base and enhance revenue collection efficiency were implemented(Mekonnen Manyazewal,2019, p.180). Restructuring of public expenditure from recurrent expenditure to capital expenditure on infrastructure, human development and productive sectors was also undertaken. In light of this, recurrent expenditure declined to 9.8 percent of GDP in 2016/17 from 15.6 percent of GDP in 2003/4 (Mekonnen Manyazewal, 2019, p.181). On the other hand the capital expenditure grew steadily averaging 10 percent over the same years. To assure the efficiency and effectiveness of the capital expenditures a comprehensive Expenditure Management and Control Reform Program (EMCRP) was adopted (Mekonnen Manyazewal, 2019, p.181).

Domestic resource mobilization through domestic savings was also what the GoE engaged itself with to finance the development endeavors. Domestic savings (as share of GDP) rose, from 9.3 percent in 2001/2 to 24.1 percent in 2014/15(Mekonnen Manyazewal,2019, p.182). However, the saving-investment gap remained 18 percent of GDP on average between 2001/2 to 2016/17

indicating domestic savings fell short of financing the big investment undertakings envisaged by the government (Yohannes Ayalew, 2019, p.168; Mekonnen Manyazewal, 2019, p.182).

To fill this resource gap, Ethiopia made concerted efforts to mobilize external loans and assistance generating about 19.7 billion USD of which the external loan component amounted 16 billion USD (Mekonnen Manyazewal, 2019, p.183). Ethiopia's strategy towards mobilizing external finance was maximizing loans and chasing after concessional loans from development partners such as The World Bank, African Development Bank, the EU, United States, United Kingdom, Germany, Sweden, China, Japan, India and the United Nations. Loans have been injected to developing the strategic sectors such agriculture, infrastructure, human development and manufacturing which were all identified as pillars of the GTP (Mekonnen Manyazewal, 2019, p.183).

Besides borrowing from the external creditors, the share of domestic borrowing has also intensified from 26.8 percent in 2010/11 at the commencement of GTP I to 35 percent in 2016/17. The government introduced a new development financing instrument through a directive of the National Bank of Ethiopia (NBE) which required private commercial banks to buy NBE-bills with the 27 percent of their monthly disbursements (Tomkinson, 2019, p.115). These bills are then transferred to the policy bank called Development Bank of Ethiopia (DBE) to finance the strategic sectors of GTP I. Innovative financing mechanism such as the Great Ethiopian Renascence Dam(GERD) bond at the beginning of GTP I was also introduced to the public (Tomkinson, 2019, p. 115).

4.5.4. Fitting the Ethiopian DDS into the 'classical' East Asian DS

Ethiopia's distinctive approach to development has garnered significant scholarly and institutional recognition as representing a developmental state model. Both academic researchers and international financial institutions have noted the country's deliberate departure from conventional neoliberal policies, with Tomkinson (2019) documenting how this divergence led to Ethiopia's identification as a 'developmental state' across policy documents, academic literature, and international reports. Clapham (2017, p.1) positions Ethiopia alongside Rwanda as undertaking the most substantial implementation of developmental state principles in sub-Saharan Africa, demonstrating the concept's viability beyond its East Asian origins. While

Arkebe Okubay (2015, p.72) characterized Ethiopia as an "*aspiring developmental state*", Ethiopia's rapid economic growth, heavy state involvement in directing the economy, and prioritization of industrial development – closely resembling the approaches of Japan and the East Asian "tiger economies" that shaped the Developmental State concept, make its identification as a developmental state quite expected (Chang and Hauge, 2019, p.824). Chang and Hauge(2019, p.824) further added that "*the inspiration that the Ethiopian state explicitly draws from the East Asian development experiences is perhaps the most notable manifestation of the implementation of the DS model in Ethiopia*".

However, beyond the mere labeling of Ethiopia as a DS, the analytical framework provided by Mkandawire (2001, p.291) offers critical lenses for assessing Ethiopia's developmental state credentials. His conceptual triad of developmental ideology, state capacity, and institutional autonomy provides a robust evaluative matrix. First, the ideological dimension requires examining whether a state genuinely mobilizes its administrative and political apparatus for developmental purposes. Mkandwire(2001, p.291) states that rather than labeling a state as developmental based on its outcomes, an ideological lens allows us to assess whether or not a regime "*seriously attempts to deploy its administrative and political resources to the task of economic development*". This ideological lens also saves us from falling into a tautological definition of a state as developmental based on circular reasoning that simply deduces developmental status from economic performance. Second, state capacity encompasses the institutional, administrative, and technical capabilities to formulate and implement effective economic policies. Mkandawire (2012) further cautions against the pitfalls of 'institutional monocropping' (the imposition of uniform policies without local adaptation) and 'institutional monotasking' (an overly narrow focus on singular economic objectives) that undermined neoliberal reforms in Africa. Third, genuine developmental states maintain sufficient autonomy from both domestic interest groups and shortsighted private sector demands that might distort long-term development objectives.

Viewing through the ideological lens, one could see that the EPRDF's ideological framework was grounded in revolutionary democracy, which emerged from the socioeconomic conditions of rural Ethiopia during the 1990s and prioritized the transformation of peasant livelihoods (Assefa Fiseha & Fiseha Gebresilassie, 2019; Eyob Balcha, 2024;Aregawi Berhe,2008). During this

initial period, the regime adopted a defensive developmentalist approach, resisting the imposition of neoliberal policies and Washington Consensus reforms through what it termed a “rearguard fight”(Tomkinson,2019, p.99).

The EPRDF’s revolutionary democratic ideology fundamentally laid the foundation for its developmentalist approach, enabling it to strategically navigate both domestic and international pressures during neoliberalism’s ascendance (Eyob Balcha, 2024, p.23). While facing significant external challenges, particularly IMF demands for comprehensive financial liberalization including exchange rate deregulation and capital account openness, the regime maintained remarkable policy autonomy through selective, cautious implementation of prescribed reforms (Tokinson,2019; Eyob Balcha,2024). This ideological foundation allowed Ethiopia to resist Washington Consensus orthodoxy while preserving the state’s commanding role in directing economic transformation through strategic fiscal and monetary interventions(Tokinson, 2019; Eyob Balcha, 2024). This is practically manifested by the sluggish implementations of SAPs, limited privatization and the public ownership of the commanding heights, the financial sector blockade to foreign investors etc. which all stemmed from the regime’s ideology and the assertiveness to maintain policy space(Tomkinson,2019) as reviewed in the above sections.

This ideological stance began to undergo significant revision since 2001, when the party embraced a more proactive developmental state ideology that emphasized strategic state intervention to guide private sector development toward industrialization (Assefa Fisseha & Fiseha Gebresilassie, 2019, p.87; Eyob Balcha, 2024, p.24).

On the state structure side which is its capacity to implement economic policies effectively, Ethiopia adopted a distinctive, domestically-grounded approach[hence avoiding ‘institutional monocropping’] to capacity building to address its human and institutional deficits(Amoako, 2019, p.893) . Its 1998 national strategy, aligned with domestic priorities rather than donor agendas, addressed education, public/private sector reform, and civil society engagement (Eyob Balcha,2024). Building on earlier leadership training initiatives (including the 1991 senior officials Open University training), the government expanded its efforts through the 2001 National Capacity Building Programme and 2003 Public Sector Capacity Building Programme, ultimately establishing the innovative Ministry of Capacity Building (MCB) as a standalone institution to coordinate reforms and donor relations (Amoako, 2019, p.893). This approach

reflected Ethiopia's recognition of capacity building as a multidimensional, systemic challenge central to its development ambitions (Amoako, 2019, p.893).

When examining Ethiopia's developmental state through the lens of policy autonomy—a core structural component that safeguards long-term development goals from myopic interests, the EPRDF demonstrated significant success in asserting control over its policy space. The EPRDF regime pursued policy autonomy through socioeconomic and political-legal frameworks designed to shield its developmental agenda from disruptive internal and external influences, achieving partial success in safeguarding its state-led transformation goals (Eyob Balcha, 2024, p.16).

Domestically, the regime exercised considerable control over financial resources, compelling private banks to fund state development projects, though rampant corruption undermined these efforts. This is evidenced by the 2011 NBE's directive that required commercial banks to hold 27 percent of their new loans in NBE bills to finance productive investments (Tomkinson, 2019, p.115). Simultaneously, it enacted legal restrictions that severely curtailed foreign financing for civil society organizations. In its external relations, the government invoked "policy sovereignty" to resist donor conditionality, skillfully negotiating aid programs while retaining control over their design and implementation. This dual approach of financial mobilization and political insulation allowed the EPRDF to pursue its interventionist development model, albeit with mixed results due to systemic governance challenges (Eyob Balcha, 2024, p.16).

Assessing, therefore, the Ethiopian Developmental State through EPRDF's ideological-structure nexus and the state's relative autonomy, one can arrive at a conclusion that Ethiopian DS was built somewhat in the image of the East Asian developmental states.

Chang and Hauge (2019, pp.829-831), on the other hand, argue that while categorizing Ethiopia as a developmental state presents analytical challenges, comparative examination reveals significant parallels with the East Asian model alongside notable divergences. The authors identify two core similarities: first, Ethiopia's consistent prioritization of industrialization through successive development plans (SPRDP, PASDEP, GTP I/II), particularly in manufacturing, echoes East Asia's strategic focus; second, its explicit rejection of neoliberal policies in favor of state-led development mirrors the East Asian approach.

However, The Ethiopian developmental state model exhibited distinct institutional characteristics that diverged from classic East Asian prototypes. While Japan and South Korea relied on autonomous technocratic bureaucracies to formulate and implement industrial policy, Ethiopia concentrated these powers within the EPRDF party structure and Prime Minister's Office. This institutional configuration, however, bore closer resemblance to Taiwan's Kuomintang (KMT) model, where the ruling party (i.e. KMT) rather than the state bureaucracy played the dominant role in both designing industrial strategy and controlling state-affiliated enterprises (Chang & Hauge, 2019, p.835).

This hybrid configuration demonstrates how Ethiopia adapted developmental state principles to its unique political context, challenging orthodox conceptions of the model while achieving similar strategic economic objectives. The case highlights both the flexibility of the developmental state framework and the importance of contextual institutional arrangements in its implementation. In light of this, Meles Zenawi, upon the question by Alex DeWaal(2018, p.2), whether or not Ethiopian DS was modeled on China, responded:

> *No. We take elements of different models from around the world. One of the benefits of the multipolar world is that we no longer need to stick with a single paradigm for development…With the rise of China; the Washington Consensus lost its global hegemony. That didn't simply give us a choice between two models, but something far more important: it meant that we were able to pick and choose among the aspects of different models that existed around the world. In the 2001 document on foreign policy and national security, we determined that we would select what is most suitable for Ethiopia from different countries around the world: the U.S., Germany, China, Korea, wherever. I call it the 'Frank Sinatra' model: 'I did it my way'.*

4.5.4. Successes and Limitations of the Ethiopian DS Model

Ethiopia achieved remarkable economic resilience during the 2004-2014 periods, recording the continent's highest per capita growth despite global headwinds that derailed many African economies (Amokayo, 2019). Real GDP per capita more than doubled from US$214 in 2004 to US$511 in 2016(Chang & Hauge, 2019, p.836) with a double-digit economic growth over the same time span without relying on natural resources, such as oil and minerals (Arkebe

Okubay,2015). An average annual GDP growth rate of 10.9% over a sustained 12-year period from 2004 to 2015 was maintained, demonstrating remarkable economic performance (Eyob Balcha, 2024, p.35).

This surge in economic growth made Ethiopia one of the world's fastest-growing non-oil economies during this transformative period (Amoako, 2019; Arkebe Okubay, 2015, p.75). While numerous African countries saw their progress reversed by the 2008 global financial crisis, Ethiopia sustained its growth trajectory through multiple challenges - including severe droughts, commodity price declines, and constrained global markets (Amoako, 2019, p.886). Significant strides in food security and human development had been made since the 1990s. Government interventions have substantially reduced famine risks and enhanced domestic food production capacity to meet the needs of its expanding population (Arkebe Okubay, 2015). These efforts have yielded tangible results across multiple sectors: poverty rates were halved; primary school enrollment surged from under 20% in the early 1990s to over 95% by 2013, and total student enrollment across all education levels surpassed 30 million by 2012(Arkebe Okubay, 2015, p.75).

Even though Ethiopia's rapid economic growth significantly reduced poverty, the flipside shows the exacerbation of inequality, with urban areas benefiting disproportionately compared to rural regions (Mesele Araya and Tassew Woldehana, 2019). While the national poverty rate declined, rural poverty remained nearly double urban levels, and growing urban inequality emerged as a key downside of the country's otherwise impressive double-digit expansion (Mesele Araya and Tassew Woldehana, 2019). Despite persistent inequalities, Ethiopia achieved significant poverty reduction, with the population below the national poverty line declining sharply from 45.5% (1995/96) to 23.5% (2015/16) - a near halving of poverty rates over two decades (Mesele Araya and Tassew Woldehana, 2019, p.340).

Ethiopia's developmental state model faced two fundamental contradictions that ultimately undermined its sustainability. Economically, despite achieving rapid growth, the economy failed to achieve meaningful structural transformation that could sustain long-term development (Mekonnen Manyazewal and Admasu Shiferaw, 2019; Arkebe Okubay, 2015). Throughout the 1980s and 1990s, Ethiopia's economic structure remained predominantly agrarian, with agriculture maintaining a substantial 55% average share of GDP. During this period, the services

sector contributed approximately 35% of economic output, while industry accounted for a modest 10%, reflecting limited industrialization progress (Mekonnen Manyazewal and Admasu Shiferaw, 2019, p.138). In the late 1990s, agriculture's GDP share fell below 50% for the first time, while the services sector expanded by 10 percentage points to reach 45% of economic output (Mekonnen Manyazewal and Admasu Shiferaw, 2019, p.138). Meanwhile, industry's GDP share, including manufacturing, persisted around 10% except for the brief spikes to 15% in 2015 and 17% in 2016 with manufacturing value added remaining stagnant at just 4-5% of GDP throughout this period(Admasu & Söderbom,2019; Mekonnen Manyazewal and Admasu Shiferaw, 2019, p.138). This shows that the economy had not shown any significant structural change other than some modest changes in the three sectors.

Ethiopia's limited economic transformation can be attributed to several key factors: its brief growth period, low economic baseline, rapid population growth, land scarcity, and failed rural-to-industrial labor transition, compounded by external shocks like commodity price declines (Lavers, 2023). Policy shortcomings, including weak agricultural-manufacturing linkages, inadequate farm productivity investments, and insufficient rural income growth to boost manufacturing demand or enable labor mobility, further hindered progress (Mekonnen Manyazewal & Admasu Shiferaw, 2019).

The Ethiopian developmental state model was also fundamentally undermined by its contradictory political foundation of ethnic federalism. The centralized decision-making required for effective developmental state governance was inherently in contradiction with the constitutional framework of ethnic federalism established in 1995. This tension manifested in escalating conflicts between the dominant TPLF elite seeking to maintain control and other ethnic political leaders demanding greater regional autonomy proportional to their demographic representation, ultimately fracturing the ruling coalition (Eyob Balcha, 2024). According to Zekarias Beshah (2018), ethnic federalism in Ethiopia was designed as a corrective to the historical marginalization and mismanagement of the country's diverse ethno-linguistic groups. Following the coming to power of EPRDF, the country's political map was reconfigured on ethno-linguistic basis with the 1995 constitution granting all the 'nations, nationalities and peoples' their autonomous regions with the right to not only self-administration but also the right to secede if need be(Zekarias Beshah, 2018, pp.107-108).

The implementation of the Ethiopian developmental state on this political setting, therefore presented a fundamental paradox: while predicated on centralized governance and top-down decision-making, reinforced by the ruling party's doctrine of 'democratic centralism', it operated within a constitutional framework of decentralized ethnic federalism (Zekarias Beshah, 2018, p.110). This inherent tension between centralized developmental imperatives and devolved political power created systemic contradictions that ultimately undermined the sustainability of Ethiopia's developmental experiment. The federal government often transcended matters regarded as inherently regional and even local to execute developmental projects (Dessalegn Rahmato, 2011, p.23).

Ethiopia's large-scale land allocations exemplify the tension between centralized development and federal autonomy. The federal government systematically bypassed regional jurisdictions by: (1) directly transferring vast land parcels (up to 300,000 ha) to investors, (2) creating a federal land management agency that overrode constitutional regional powers, and (3) marginalizing local communities in decision-making, sparking widespread grievances(Keeley et al.2014).

Ethiopia's large-scale land acquisitions and territorial disputes, particularly in Gambella region(Desalegn Rahmato, 2011) and the 2012 Addis Ababa Master Plan's attempted incorporation of surrounding Oromia territories into the capital's metropolitan area(Zekarias Beshah,2018), exemplified the tensions between centralized development and regional autonomy. These controversies, violating constitutional federalism, ignited the 2014 Oromo protests through rallying cries like "Oromia is not for sale", ultimately contributing to the EPRDF's collapse in 2018 by crystallizing grievances (Zekarias Beshah, 2018).

Chapter 5: The Political Economy of Development under the Prosperity Party Rule

5.1. Transitioning From EPRDF to Prosperity Party

Even though there were embedded political and socio-economic grievances that were lingering over time(Tronvoll,2021), the contentious Addis Ababa Integrated Master Plan was the immediate cause that triggered the popular protests which erupted in 2015 in Oromia region (Mebratu Kelecha, 2021, p.80). This urban expansion initiative was perceived by many as a deliberate effort to displace Oromo farmers and extend Addis Ababa's jurisdiction into surrounding Oromia territories, provoking fierce resistance (Mebratu Kelecha,2021, p.80; Yonas Ashine &Kassahun Berhanu,2021, p.997). This is one case of the incompatibility between the developmental statist ideology which was based on top-down and centrally-planned state-led developmental approach and the ethnic federal structure with decentralized authority (Mebratu Kelecha, 2021, p.82). The talk of Addis Ababa Master Plan which aimed at incorporating around 30 nearby-Addis Ababa towns and villages of Oromia region was official in 2014 when it was formally introduced to OPDO cadres in Adama by the TPLF officials (Mebratu Kelecha, 2021). The Master Plan faced immediate opposition from OPDO cadres, who publicly expressed their dissent through regional television broadcasts (Mebratu Kelecha, 2021, p.80). While initial public protests emerged in April 2014, these were effectively suppressed before the May 2015 elections (Mebratu Kelecha, 2021, p.80). The movement regained momentum in November 2015 with the Ginchi protests, which served as a catalyst for the widespread demonstrations that subsequently engulfed the entire Oromia region(Lyons, 2021, p.1056). Protestors, particularly Oromo youth, mobilized under the unifying slogans "No to the Addis Ababa Master Plan", "No to land grabbing," and "Down with EPRDF" framing their resistance both in terms of territorial rights and fundamental political change(Mebratu Kelecha,2021, p.80; Yonas Ashine&Kassahun Berhanu,2021, p.997).

These Oromia youth(*Querro*) protests were followed by Amhara youth(*Fano*) protests who had their own simmering political and socio-economic discontents only to have erupted when the federal security forces tried to arrest Colonel Demeke Zewdu, leader of the Wolqait self-determination and identity committee(Wolqait Committee) on terrorism charges(Mebratu

Kelecha,2021, p.132;Lyons,2021. P.1057). This synergy of popular protests shook up the EPRDF regime to the core responding with rounds of state of emergencies in the two regions in October 2016 and February 2018(Yonas Ashine&Kassahun Berhanu, 2021, p.998). Despite the EPRDF's acknowledgement of the problems facing the coalition and sat down to undertake a thorough self-evaluation (*gimigema),* it failed to come up with a unified solution to arrest the problem which threatened their survival as a coherent coalition (Tronvoll, 2021). The Oromo and Amhara component party elements within the coalition, sympathetic to the popular protests, seized the opportunity to align their strategies and challenge the TPLF's longstanding dominance (Lyons,2021, p.1056; Tronvoll, 2021). To this end, Oromo and Amhara elites held a pivotal meeting in Bahir Dar in early November 2017, laying the foundation for the tactical 'Oromahra' alliance, bringing together party leaders, intellectuals, elders, and cultural figures. Speakers framed the alliance as a grassroots movement, urging Ethiopia's two largest ethnic groups to unite against perceived TPLF domination, masking an elite power struggle as popular solidarity(Tronvoll, 2021).

In March 2018, after prolonged and fractious debates within the EPRDF's "Deep Renewal" reform process, the OPDO and ANDM tactical alignment in the coalition's Executive Council ultimately led to the ascent of OPDO chairman Abiy Ahmed as Ethiopia's new Prime Minister (Lyons, 2021, p.1058). Prime Minister Abiy Ahmed's rise to power with his reformist colleagues ushered in a period of radical political and economic measures. The new administration implemented sweeping changes resembling 'shock therapy', including the release of thousands of prisoners (comprising of members of opposition parties, journalists, bloggers and activists), the repeal of draconian laws, the unprecedented rehabilitation of formerly exiled opposition groups, such as Ginbot 7, the Oromo Liberation Front (OLF), and the Ogaden National Liberation Front (ONLF) - organizations that had previously been designated as terrorist entities(Lyons,2021, p.1058; Michael Wodemariam,2018; Teklie Tesfamariam,2021; Ermias Yemanebirhan,2022). Abiy's foreign policy revolution paralleled his domestic reforms, most notably through Ethiopia's unexpected implementation of the 2000 Algiers Agreement with Eritrea. The July 2018 Asmara summit, where Abiy and Isayas signed their peace declaration, marked both a symbolic end to twenty years of hostility and a practical foundation for renewed economic and diplomatic ties (Michael Woldemariam, 2018; Ermias Yemanebirhan,2022, p.36). Another profound change that occurred post-2018 is the merger of the EPRDF. This merger

which was realized at the 2018 Hawassa conference through unanimous council approval marked a fundamental ideological and organizational shift in Ethiopian politics (Ermias Yemanebirhan, 2022, p.48). Arguing to transcend historical center-periphery divisions by incorporating diverse ethnic, religious, and class interests, the PP included parties in Somale, Gambella, Afar, Harari and Benshangul-Gumuz regions under the prosperity party 'big tent'. This measure defies the EPRDF's historical exclusion of these regional parties from pastoralist/lowland areas due to its rigid agrarian socialist orientation based on Marxist social base analysis (Ermias Yemanebirhan, 2022, p.48).

5.1.1. Turbulent Transition: From Reform to Crisis

When Abiy Ahmed assumed power in April 2018, his administration began with sweeping democratic reforms that promised a new era for Ethiopia. The government immediately released political prisoners, welcomed exiled opposition groups back into the political process, and appointed former political detainee Birtukan Mideksa to lead the National Election Board(Lyons,2021). In a historic move towards gender equality, Abiy formed Africa's first gender-balanced cabinet with 50% female representation. His peace deal with Eritrea in July 2018, ending two decades of hostility, earned him international acclaim and the Nobel Peace Prize (Oando & Achieng, 2021, p.33).

However, this hopeful beginning soon gave way to escalating violence and political turmoil. The June 2019 assassination of popular Oromo singer Hachalu Hundessa triggered ethnic violence across Oromia, while the mysterious death of GERD chief engineer Simegnew Bekele before that raised suspicions of foul play. A failed coup attempt in Amhara region claimed the lives of Army Chief Se'are Mekonnen and regional president Ambachew Mekonnen along with other regional government officials, exposing dangerous fractures within the security apparatus (Berhanu Asfaw, 2024).

The government's decision to postpone 2020 elections due to COVID-19 sparked accusations of democratic backsliding, with opposition groups claiming the pandemic was being used as pretext to extend power (Zemelak Ayele, 2022, p.4). As tensions mounted, full-scale war erupted in November 2020 between federal forces and the TPLF in Tigray, Ethiopia's northern region,

drawing in Eritrean troops and resulting in widespread atrocities (Zemelak Ayele, 2022, p.2). Despite the 2022 Pretoria peace agreement between the federal government and TPLF, no implementation settlement has been reached and tensions still linger (Abbink, 2024, p.8). Simultaneously, Ethiopia faced multiple other security crises as the Oromo Liberation Army (OLA) and Amhara Fano militias are still engaged in increasingly violent clashes with government forces (Endalkachew Bayeh,2022, p.4; Abbink,2024, p.4)).

The Geopolitical tensions flared over Ethiopia's Red Sea aspirations strained relations with Eritrea and Somalia(Briggs,2025), adding another layer of complexity to the nation's crises. As Ethiopia approaches its next electoral cycle, the initial promise of Abiy's reform agenda has largely given way to a reality of persistent conflict, democratic erosion, and a fractured social fabric, and it's in this context that the economic reforms are to take place. The government's inability to maintain security beyond Addis Ababa's outskirts and its reliance on increasingly authoritarian measures have left many Ethiopians questioning whether the nation's transition has stalled - or worse, reversed course entirely. The coming years will, therefore, prove decisive in determining whether Ethiopia can reclaim its early democratic momentum and ascend on the path of prosperity as it as aspires or succumb to the centrifugal forces currently tearing at its political and socio-economic foundations.

5.2. Prosperity Party's Diagnosis of the Past and The *Medemer* Ideology

The concept of *Medemer* was floating over the air since the very time it was introduced by the Prime Minister of Ethiopia, Abiy Ahmed(PhD), in his inaugural speech of premiership, since roughly a year before he authored it as a book for anyone to read(Asrat Seyoum,2018). Following the *Medemer* buzzword and its formal codification as a book later, everyone from all directions (scholars, politicians, and concerned citizens) was grappling with the concept in an attempt to grasp the whole essence of the concept *Medemer* (Daniel Behailu, 2019, p.218).

While scholars such as Almariam(2019b); hailed it as a framework that's partly philosophical/theoretical and partly practical with a set of actionable measures and policy prescriptions, Daniel Behailu(2019, p.224), calls *Medemer* as a "politics of compromises" which does not subscribe to any specific ideology. Appiah-Mensah (2022, p.86) classifies *Medemer* within the emerging paradigm of Afrocracy, a constellation of indigenous African governance

systems including South Africa's Ubuntu[5] and Ghana/Côte d'Ivoire's Nnoboa[6]. These systems share three constitutive features: (1) ontological authenticity through rootedness in pre-colonial epistemologies, (2) institutional inclusivity accommodating Africa's ethnic and political heterogeneity, and (3) deliberative decision-making structures that synthesize individual and communal rights (Appiah-Mensah, 2022, p.86). In a panel discussion organized by the United States Institute of Peace, asked if *Medemer* is more than a slogan and what it is in its practical sense, Mamo Mihretu (former senior advisor on policy reforms and NBE governor) affirmed that Medemer is more than a slogan framing it as: (1) literally meaning collaborative synergy for shared national goals; (2) a guiding philosophy for Ethiopia's reforms across economic, political, and foreign policy domains; and (3) an analytical framework rejecting cyclical historical erasure. Practically, it prescribes building on past successes, rectifying past errors, and crafting context-responsive solutions—all oriented toward shared prosperity and intergenerational legacy-building (United States Institute of Peace, 2020, 1:13:55).

In the introductory part of the book *Medemer*, authored by Prime Minister Abiy Ahmed in 2019, it is stated that the philosophical concept of *Medemer* originated from his formative years in his birthplace, the small town of *Beshaha*. Abiy Ahmed(2019, p.II) says: "*The idea of Medemer evolved progressively, maturing alongside me from childhood to adulthood, ultimately crystallizing into a coherent ideology that I chose to articulate and promote as a guiding vision for my country*". He further asserts:

> *The philosophy of Medemer is collectively ours. It has two primary sources of origin and evolution. The first stems from our enduring cultural values, deeply rooted in our historical heritage and indigenous traditions, which have fundamentally shaped the moral and social fabric of our society. The second source is nature itself. It is for this reason that I believe Medemer offers essential solutions to our most pressing challenges (Abiy Ahmed, 2019, p. III).*

[5] Ubuntu, a Zulu philosophy, teaches that every person is fundamentally part of an inclusive collective, embodying social awareness and unity — captured in the essence: "I am because you are". (Appiah-Mensah , 2022)

[6] Nnoboa, an Akan word (Ghana and Ivory Coast), embodies mutual aid and collective self-help. It fuels community-driven cooperation — from shared farming and informal banking to group fundraising — strengthening resilience through unity.

According to Kebadu Mekonnen(2020), though the term *Medemer* may seem new to the Ethiopian political lexican, its origin could be traced back to a 1942 edition of Addis Zemen newspaper under the column ኢትዮጵያዊነት(“Being Ethiopian”) in which it reads*: “ይፈቁንም ዛሬ ጠላት ከለቀቀ በኋላ፣ ይህ ኢትዮጵያዊነት የሚባል ስም መደመርን እንጂ፣ መከፈልንም ፣ መቀነስንም አልወደደም። ይህም አብቦ ለፍሬ የደረሰ ነገር ስለሆነ ፣ እንዳልበቀለ አድርጎ ያየው ዘንድ ለማንም አይገባውም።*” (“*Whereas, after the enemy has left, this notion of being Ethiopian has chosen unity (Medemer) instead of division or degeneration. Since it has already bore fruit, it wouldn’t be proper for anyone to regard it as not having blossomed*.”)(Kebadu Mekonnen, 2020, p.18).

According to Abiy Ahmed(2019), *Medemer*, etymologically rooted in the Amharic word ደመረ (‘to add’), operates through dual dimensions: (1) “horizontal addition”, integrating contemporary ideas, resources, and knowledge across sectors, and (2) “vertical addition”, cumulatively building on past successes to compound progress. It advocates a cumulative development model, strategically repurposing viable historical achievements as foundational assets for future advancement, rejecting the idea of wholesale dismantlement and ground-up reconstruction which is a characteristic of previous regimes. *Medemer* fundamentally embodies a synergistic equilibrium between competitive dynamism and cooperative solidarity (Abiy Ahmed,2019).

Elaborating on the essence of his philosopy of *Medemer*, in his 2019 Nobel Peace Prize Winner acceptance speech, Abiy said:

> *Medemer, an Amharic word, signifies synergy, convergence, and teamwork for a common destiny. Medemer is a homegrown idea that is reflected in our political, social, and economic life. I’d like to think of Medemer as a social compact for Ethiopians to build a just, egalitarian, democratic, and humane society by pulling together our resources for our collective survival and prosperity. In practice, Medemer is about using the best of our past to build a new society and a new civic culture that thrives on tolerance, understanding and civility. At its core, Medemer is a covenant of peace that seeks unity in our common humanity. It pursues peace by practicing the values of love, forgiveness, reconciliation and inclusion* (Nobel Prize, 2019, 09:36).

The main goal of *Medemer*(roughly translated as synergy) according to Abiy Ahmed(2019), is to build on the positive sum-ups Ethiopia has achieved in the past years in the socio-economic and

political arenas while rectifying past failures and maintaining inter-generational equity. From the point of view of problem analysis, *Medemer* is inward looking while, solution-wise, it benefits from both local and global knowledge sources (Abiy Ahmed, 2019).

The author argues that an ideology, or any system of thought, for that matter, can only achieve meaningful success if it emerges organically from a society's collective wisdom, cultural heritage, and lived experiences. Furthermore, he emphasizes that such a philosophy must be carefully adapted to the unique historical, social, and material conditions of the society it seeks to serve. Only then can it provide viable and sustainable solutions to that society's challenges (Abiy Ahmed, 2019, p.VI). The author contends that while societies may derive useful insights from external ideological traditions - whether Western or Eastern - they must avoid the folly of blindly importing foreign paradigms while neglecting their own indigenous wisdom. He illustrates this through a vivid metaphor: likening such misguided adoption to an intoxicated man who carelessly loses his house key in the dark, yet stubbornly searches for it only where light happens to shine. This allegory underscores the irrationality of seeking solutions exclusively in external domains while ignoring the rich repository of knowledge within one's own sociocultural and psychological landscape. The argument posits that sustainable solutions must be fundamentally grounded in the historical experiences, cultural values, and collective consciousness of the society they aim to serve. He advises that "for indigenous problems, indigenous solutions" must be the country's motto. He argues, *Medemer* is, therefore, a thought to address societal challenges through solutions grounded in local contexts and realities.

In an effort to diagnose the problems of the past in Ethiopia, *Medemer, which* is a blue print for prosperity party's political economic path (Tefera Assefa, 2024), started first by critiquing the two dominant ideologies —liberalism and socialism. It argues that while these competing ideologies each championed certain modern values (e.g. individual liberty both in its political and economic sense in the case of liberalism and equality in the case of socialism), they remained incomplete in addressing the full spectrum of societal needs. The critique suggests that by focusing narrowly on singular principles, these frameworks failed to reconcile or harmonize these values within a holistic, contextually grounded approach (Abiy Ahmed, 2019, pp. 13-24).

Medemer critiques Ethiopia's historical adoption of these ideologies or some variant of them, arguing they were imported and implemented without adaptation to the country's specific

realities. *Medemer* critiques how socialist ideology was uncritically adopted as the dominant political discourse among Ethiopia's educated youth without proper analysis of the nation's actual socioeconomic conditions. The author observes that while Ethiopian intellectuals passionately debated proletarian oppression and revolutionary theory, they failed to recognize a fundamental disconnect: Ethiopia's developmental stage had not yet produced the industrial working class that Marxist theory presupposed. This ideological imposition represented, in essence, a theoretical framework applied without regard for local material realities (Abiy Ahmed, 2019, p.21).

Abiy Ahmed (2019), in his *Medemer* book, employs a powerful metaphor to critique Ethiopia's implementation of socialist ideology, comparing it to forcing one's feet into ill-fitting shoes. He extends this analogy to argue that the nation not only adopted an ideologically unsuitable framework (the wrongly-sized shoes), but went further by painfully contorting its social and economic structures (cutting one's feet) in a futile attempt to make the foreign model fit(Abiy Ahmed, 2019, p.23). He argues "*because we had not developed the consciousness needed to define and analyze this ideology and lacked the necessary discernment to extract and apply only its relevant aspects, we embarked on a very self-destructive journey of civil war*" (Abiy Ahmed, 2019, p.23).

The other manifestations of diagnosis of the past by prosperity Party is *Medemer*'s multifaceted critique of EPRDF's Revolutionary Democracy. While acknowledging Revolutionary democracy's contextually appropriate rural focus, *Medemer* tried to expose six fundamental flaws. One of the flaws of revolutionary democracy critiqued by *Medemer* is the asymmetrical lens through which it views the political and economic elites. *Medemer* critiques that Revolutionary Democracy's asymmetrical treatment of political and economic elites reflects an ideological bias rather than objective analysis. While valorizing political actors (government officials) as societal protectors (particularly for rural populations), *Medemer* argues, Revolutionary democracy simultaneously demonizes economic elites (private sector) as inherently rent-seeking and exploitative actors requiring state intervention**.** *Medemer* challenges this assumption by demonstrating how systemic corruption and rent-seeking behaviors emerged during the EPRDF era not solely from private economic actors, but equally from governmental mismanagement and maladministration. This empirical reality, according to *Medeme*r,

undermines Revolutionary Democracy's binary distinction between "virtuous political elites" and "predatory economic elites", revealing instead a shared culpability in distorting equitable development.

The second dimension of revolutionary democracy that *Medemer* critiqued is its economic reductionism that reduced all social conflicts to material conditions (i.e., Revolutionary democracy's assumption that all other societal problems are continuations of economic problems). *Medemer* counters this view by asserting that social relations extend beyond economic class dynamics. While class dynamics is as important within production systems, *Medemer* emphasizes the multidimensionality of human identity, which encompasses gender, professional status, and other sociocultural markers that equally influence collective consciousness and political mobilization (Abiy Ahmed, 2019, p.27). It critiques the limitations of materialist approaches to conflict resolution, observing that Ethiopia's efforts to address economic needs in the past failed to reduce societal tensions or restore lasting peace. It argues that human uniqueness lies in transcendent aspirations, including liberty, justice, equality, and freedom of expression, which exist alongside material requirements. True societal harmony thus demands both equitable resource distribution and the fulfillment of these fundamental rights, as neither alone suffices for sustainable peace (Abiy Ahmed, 2019, p.27).

Medemer's third critique centers on Revolutionary Democracy's failure to fulfill its foundational purpose as a transitional ideology**.** The framework was originally conceived to guide Ethiopia's transformation from pre-capitalist structures to a modern capitalist system, yet became stagnant peasant-centric model that paradoxically inhibited industrial development necessary for genuine economic transformation. Rather than serving as a dynamic bridge between economic systems, revolutionary democracy and its new reconfiguration developmental state, *Medemer* argues, solidified into a permanent governance model that paradoxically inhibited the very capitalist development it purported to advance, leaving Ethiopia suspended between historical stages without achieving meaningful systemic transformation.

Medemer further condemns the constitutional contradiction of Revolutionary Democracy's dominant-party system that maintained authoritarian control under democratic pretenses. While formally recognizing multi-party democracy, Revolutionary Democracy entrenched a hegemonic political structure that systematically marginalized opposition voices, undermined pluralist

principles and betrayed the constitutional promise of competitive politics, argues *Medemer*(Abiy Ahmed,2019).

The fifth flaw of Revolutionary democracy identified by *Medemer* was Revolutionary Democracy's overemphasis on pre-capitalist production systems at the expense of others. By fixating on rural smallholder economies, *Medemer* argues, revolutionary democracy overlooked the encroaching capitalist production systems in the country, failing to come up with a coherent strategy to accommodate this development.

The sixth and last critique on Revolutionary democracy was its prioritization of party dominance over institutional development which created a co-opted bureaucracy and civil society lacking independent oversight - all under the guise of a 'developmental state' that ultimately served regime preservation rather than national transformation.

Other than the critiques made by *Medemer* on the flaws of the past ideologies tried in Ethiopia, PP's political diagnoses of the Ethiopian past are also manifested in the *Medemer* philosophy.

Medemer's oppression thesis identifies two oppression vectors in Ethiopia: (1) '*Man-made oppression*", where autocratic regimes maintain power through violent repression of dissent, nepotistic patronage networks, and suppression of individual/group rights—a pattern evident in Ethiopia's last half-century of political violence; and (2) "*structural oppression*", embedded in institutionalized mechanisms that primarily disadvantage marginalized groups. Both types persist due to ruling elites' singular focus on mitigating immediate existential threats (internal/external) rather than addressing root causes through developmental state-building and institutional fortification. This reactive governance pattern prioritizes regime survival over systemic transformation, leaving oppression's structural foundations intact (Abiy Ahmed, 2019).

What *Medemer* prescribes as a remedy for both oppressions is to have a reform or structural maintenance for oppressions on groups and instituting a democratic system for oppression in general. Generally, *Medemer* identified 9 main group rights oppressions that need structural maintenance. These are oppressions based on ethnicity, religion, region/province, disability, core/periphery, urban/rural, class, sex and age(Abiy Ahmed, 2019).

Asserting that oppression typically stems from regimes lacking legitimate foundations of power, forcing them to rely on coercive control, *Medemer* contends that constructing a system where all

political legitimacy derives solely from the people's will, embodied in a democratic framework is essential. *Medemer* tries to substantiate its argument by referring to the unsustainability of Ethiopia's historical experimentation with alternative legitimacy markers (divine right, blood line, force, economic performance) since the imperial rules, the *Derg* and EPRDF regimes.

According to Abiy Ahmed(2019), the modern triad of liberty, equality, and fraternity, introduced during Ethiopia's student movement, generated three enduring questions: (1) the land/class struggle, (2) the nationalities question, and (3) democratic representation. While the 1974 and 1991 revolutions, with their limitations, addressed land redistribution and the national question respectively, both failed to institutionalize democracy, leaving their solutions incomplete and unstable. Crucially, these efforts prioritized equality over liberty and fraternity, neglecting the civic culture necessary for sustainable democracy. Recent instability reveals how suppressed demands for liberty exacerbate unresolved equality conflicts (Abiy Ahmed, 2019).

Thus, Ethiopia requires a tailored democratic system that: (1) synthesizes ethnic and civic nationalism, (2) builds on past gains while rectifying historical injustices, (3) progressively addresses complex challenges, and (4) cultivates the missing fraternity element through civic education. Only such an organic democracy, balancing group rights with national cohesion, can resolve Ethiopia's legitimacy crisis and break its cycle of contested transitions (Abiy Ahmed, 2019).

Abiy Ahmed (2019), thus, raises a critical question: why have Ethiopia's successive ideological experiments, from socialism to its variant revolutionary democracy, and later the developmental state model failed to bring about meaningful transformation? With some opposition parties even advocating for liberal or social democracy, the fundamental question remains unanswered. Before embracing yet another political economic model, Abiy Ahmed(2019) contends, Ethiopia must examine why all previous ideological frameworks failed to deliver either prosperity or genuine democracy.

Abiy Ahmed(2019) asserted unequivocally that socialism produced neither meaningful economic development nor democratic governance, instead inflicting widespread damage, a reality evident in Ethiopia as elsewhere. While the developmental state model drove transformative growth in East Asia, Ethiopia's implementation of it achieved only superficial growth. Although achieving respectable growth rates, it ultimately failed to produce the structural transformation needed for

sustainable development, not to mention its systemic suppression of political freedoms which led the country in to a deep crisis.

Abiy Ahmed(2019) argues that Ethiopia's recurring crises for the last 50 years stem fundamentally from the uncritical application of external ideological frameworks without adequate translation into local realities. The path forward, therefore, requires a made-in-Ethiopia intellectual paradigm, grounded in our context but informed by both indigenous and global knowledge, developed through inclusive dialogue to create actionable consensus for national renewal (Abiy Ahmed, 2019).

Hence, *Medemer* emerges, Abiy Ahmed(2019) argues, as the conceptual response to this imperative, an endogenous Ethiopian paradigm that synthesizes indigenous wisdom with globally relevant governance principles. By bridging Ethiopia's unique sociohistorical context with universal democratic and developmental values, it seeks to transcend the failures of previous imported models while offering a unifying framework for collective national progress.

5.3. Is Medemer an ideology?

What the essence of *Medemer* is and is not, has been a bone of contention among academicians, political figures, journalists, political activists since its introduction into the Ethiopian political discourse. While Almariam(2019 a&b); Linda(2020); Mamo Mihretu and Lencho Bati(in their reflections on 'understanding *Medemer*' in a panel discussion organized by USIP, 2020) hail it as a coherent set of ideas by which Ethiopia is lifted out of its misery, poverty and decadence and set onto a trajectory of shared prosperity, Abdissa Olkeba(2021, p.10) condemns it as a one-man ideology imposed on the Ethiopian people without taking into account the Ethiopian reality and having debated it out among party members and government officials. Desalegn B(2019, p.2) signifies that the idea of *Medemer* is vague and it can be interpreted and misinterpreted in many ways. According to Desalegn B(2019, p.3), for one, people may equate it with "oneness". It also signifies nullification (i.e. -1+1=0) or negation (i.e. -2+1=-1) which, he argues, implies the inaplicability of *Medemer*. He concludes that the idea of *Medemer* is impossible to function in the case of diversity equating it with the impossibility of adding lemon and milk together and rather calls for tolerance rather than *Medemer*. However, his analysis of *Medemer* through the simple algebra of nullification or negation can easily be debunked as adding a positive number to

a negative one always results in a better off situation. For example, one can always be in a better position moving from -1 to 0 or from -2 to -1. Assefa Lemu(2019, no pagination) shows how different people see *Medemer* differently by asserting:

> *Some say, Medemer means unity, togetherness, reconciliation, synergy, synthesis, consolidation, combination, or cooperation, but others say it is putting everyone in one melting pot to create homogeneous society out of heterogeneous society, unitary, elimination of identity and diversity by the means of aggregation, domination through combination or expansion, clustering, bundling, merging, or cannibalization.*

Irrespective of the ideas for and against, *Medemer* is a political language through which political ideas are expressed (Tefera Assefa, 2024, p.120). In light of this, whether or not this political language can be considered an ideology should be examined and determined with a conceptual framework of ideology.

As it was explained before, the term 'ideology' was coined by a French philosopher Antoine Distutt de Tracy in 1796 to literally mean "science of ideas" in which ideas are to be studied scientifically. However this original meaning has lost over time to the modern definition of ideology meaning which is "an action-oriented belief system, an interrelated set of ideas that in some way guides or inspires political action"(Tefera Assefa,2024, p.123). As Heywood (2021) explains, ideologies serve to uphold, modify, or overthrow existing power structures. Furthermore, he outlines three core functions of all political ideologies: "(a) advance an account of the existing order, usually in the form of a 'world-view', (b) outline a model of the desired future, a vision of the 'good society', (c) explain how political change can and should be brought about" (Heywood, 2021, p.8). These components, i.e. diagnostic critique, normative vision, and practical theory of change are what collectively define a system of thought as a political ideology (Heywood, 2021).

Although ideologies are defined as coherent sets of ideas, they often lack precise boundaries and internal consistency, as they are not rigid or closed systems of thought. Instead, ideologies tend to be fluid and adaptable, frequently overlapping with one another. This interplay gives rise to hybrid ideological forms that blend elements from different traditions (Heywood, 2021).

Therefore, when analyzing *Medemer* through the lens of the above definition and characteristics of ideology, it becomes essential to consider its coherence, adaptability, and potential overlaps with other ideological frameworks.

For *Medemer* to qualify as an ideology, therefore it must meet Heywood's (2021) three essential criteria: first, presenting a critical analysis of the current system through a distinct worldview (diagnostic critique); second, articulating an aspirational model of an ideal society (normative vision); and third, proposing concrete methods to achieve this envisioned transformation (practical theory of change).

Hence when we see *Medemer* through the ideological lens presented above, it manifests these dimensions. First it criticizes the existing ideologies (liberalism and socialism). It also attempted to critique and to identify the flaws of the ideologies Ethiopia tried in the past. *Medemer* contends that while liberalism emphasized individual liberty and socialism prioritized equality, both ideologies remained partial by focusing narrowly on singular values, failing to integrate them holistically within a contextually grounded framework to address the full spectrum of societal needs (Abiy Ahmed, 2019, pp. 13-24).

Medemer critiques Ethiopia's uncritical adoption of foreign ideologies, particularly socialism, which was embraced without adapting to the country's socioeconomic realities. Ethiopian intellectuals fervently debated Marxist theory while overlooking a key disconnect: the absence of an industrial proletariat that the ideology presupposed (Abiy Ahmed, 2019, p.21). *Medemer* critiques the implementation of socialist ideology in Ethiopia as comparable to not just forcing one's feet into ill-fitting shoes, but cutting one's toes to force them to fit — highlighting how the uncritical adoption of an incompatible model led the distortion of local structures in a futile effort to make it work(Abiy Ahmed,2019, p.23). *Medemer* also exposes Revolutionary Democracy's fundamental contradictions: its selective demonization of economic elites while excusing political elites' rent-seeking; its reductive materialist analysis that ignores identity-based grievances; and its failure to transition Ethiopia beyond agrarian stagnation. The developmental state ideology adopted later is also critiqued by *Medemer* for its failure to bring about a structural transformation despite its impressive results in economic growth and poverty reduction (Abiy Ahmed, 2019). These are indications of the first criterion of ideology—diagnostic critique of the existing order.

Second, *Medemer* also has a normative vision as to what the desired future model (vision of a 'good society') should be. According to *Medemer* Ethiopia's 'vision of the good society' is a tailored democratic system that: (1) synthesizes ethnic and civic nationalism, (2) builds on past gains while rectifying historical injustices, (3) progressively addresses complex challenges, and (4) cultivates the missing fraternity element through civic education.

Medemer also satisfies Heywood's (2021) third criterion of ideology—a theory of political change—through its explicit advocacy for evolutionary transformation. It rejects revolutionary rupture in favor of incremental change building on the usable past rather than starting afresh (Abiy Ahmed, 2019, pp.36-43). Therefore based on Heywood's (2021) tripartite framework, Medemer could be justified as an ideology.

However, As Tefera Assefa(2024) notes, while *Medemer* is presented by its proponents as an indigenous philosophy, its foundational principles exhibit discernible influences from established ideological traditions. *Medemer* as an ideology has its core principles rooted in different ideologies such as liberalism, socialism, conservatism and fascism.

As argued by *Medemer*, Ethiopia has reached the edge of the cliff where a one more step in that direction will lead the country to a catastrophic end. The aim of *Medemer* is to save the country from vanishing. Page IV of Medemer reads: "*through collective failure to collaborate, we have reduced our nation to an emblem of backwardness and poverty; violent strife - a territory stained by conflict, whose citizens have become synonymous with displacement, perpetuating an unbroken cycle of suffering and disorder"* (Abiy Ahmed, 2019, p.IV). In light of this, Medemer posits itself as redemption to the entire crisis in the country. This Medemer's narrative of existential threat ('vicious cycle of misery and chaos') and urgent salvation ('time to save the country is now') structurally parallels fascism's myth of 'national renewal or rebirth' of a nation after a 'period of decline or destruction' (Griffin, 2012, p.10).

Medemer argues that an ideology can achieve meaningful success only if it emerges organically from a society's collective wisdom, cultural heritage, and lived experiences accounting for the unique historical, social, and material conditions of the society it seeks to serve(Abiy Ahmed,2019, p.VI). This is mirrored with the ideology of conservatism which advocates for "the accumulated wisdom of the past" (Heywood, 2021:53) as the best solution to a country's long-standing problems. *Medemer* asserts that individuals lack autonomous capacity for self-

sufficiency, requiring collective cooperation to: (1) preserve sovereignty, (2) ensure security, and (3) mitigate existential dangers (Abiy Ahmed, 2019, pp.36-41). This perspective mirrors the core conservative principles of: 'human imperfection', which posits that individuals are psychologically limited, inherently dependent, and fundamentally security-seeking creatures who fear isolation and instability (Heywood, 2021, p.54). *Medemer* also advocates for pragmatism where on pages 60-61 it says:

> *Pragmatism transcends theoretical abstraction by grounding action in contextual realities, offering a dynamic framework for addressing complex challenges through adaptive problem-solving. Unlike theory's reductive universalism, which often promotes intellectual complacency by forcing diverse issues into rigid paradigms, pragmatism embraces iterative refinement, allowing course-correction based on empirical feedback and evolving conditions" (roughly translated from Amharic in Abiy Ahmed,2019:60-61).*

This pragmatic views of *Medemer* is also found in conservatism ideology where "*they[conservatives] prefer to ground their ideas in tradition, experience and history, adopting a cautious, moderate and above all pragmatic approach to the world, and avoiding, if at all possible, doctrinaire or dogmatic beliefs*"(Heywood,2021, p.55).

Medemer's principle of harmonizing competition and cooperation, core tenets of liberalism and socialism respectively, reframes these traditionally opposing forces as interdependent elements of social organization. By advocating for their balanced integration, *Medemer* advances a hybrid governance model akin to Giddens' (1994) 'Third Way', which transcends ideological binaries through pragmatic synthesis rather than dichotomous choice.

In summary, *Medemer* emerges as a syncretic ideology that selectively integrates and reconfigures core principles from established political traditions, including liberalism, socialism, conservatism, and elements of fascist rhetoric, into a distinct hybrid framework. Its theoretical foundation is fundamentally eclectic, synthesizing divergent ideological components to address Ethiopia's unique sociopolitical context.

5.4. The Prosperity Model: 'Homegrown' Economic Reform Agenda (HGER)

Following the advent of the new administration of PM Abiy, major economic reforms were also pursued in parallel to the political reforms. Acknowledging the strides made in the past by EPRDF especially in terms of achieving a remarkable economic growth, poverty reduction, infrastructure and human capital development for over a period of 15 years since 2004-2018 before the EPRDF's final days, the PP administration vows to rectify past deficits in all other economic markers (Prosperity Party,2021). According to MoF(2020), even though Ethiopia achieved remarkable pre-2018 growth, including double-digit GDP growth (2004-2017), a six-fold rise in per capita income (about $865 in 2018), poverty halving (44.2% to 23.5% between 2000-2018) and considerable advancements in infrastructure and human capital development, its economic gains were of low quality and structurally fragile failing to undergo structural transformation necessary for long-term sustainability and private sector development to generate employment. Furthermore, macroeconomic imbalances arose due to the public investment financing model, which depended heavily on debt financing through domestic and external borrowing, along with inefficiencies in project execution (MoF, 2020).

Therefore, it's against this backdrop that the Government of Ethiopia (GOE) has launched a 'homegrown economic reform agenda' (HGER) aimed at bringing a macro-financial stability and rebalancing and sustaining economic growth (MoF, 2020). On the event of launching the HGER, Prime Minister Abiy Ahmed was quoted as saying: "*Several months in the making and spearheaded by some of Ethiopia's finest minds, our initiative aims to propel Ethiopia into becoming the African icon of prosperity by 2030*," and to realize the success of the reform agenda "*we are tightening our fiscal belts, strengthening our public sector finances, shedding our debts, and increasing domestic resource mobilization*" (Economic Commission for Africa, 2019).

According to the HGER document which was officially released in March 2020 in the ministry of finance website, the reform was premised on the economic diagnosis of the past regime. Its premise is that unless the unintended macro-imbalances created as a result of the financing model the country followed for financing the public investments on infrastructure and human capital development, were addressed, Ethiopia would not realize its aspiration to reach a lower middle income country by 2025.

The HGER document identifies five key economic headwinds: (1) chronic foreign exchange imbalances caused by excessive demand from large public investments and high imports, lagging exports, an overvalued exchange rate, and a widening parallel market gap; (2) External debt distress, with public debt doubling to 50% of GDP (external debt tripling to 31.6%) by 2017/18, leading the IMF to flag a 'high risk of distress' thereby eroding creditworthiness; (3) limited private sector access to finance due to the crowding out by the public sector, reflected in Ethiopia's 167th Doing Business credit access rank and private credit at just 12% of GDP (below SSA's 20% average); (4) High inflation (15.4% average between 2005–2018) fueled by expansionary fiscal and monetary policies, eroding purchasing power, discouraging savings via negative real rates, and overvaluing the exchange rate; and (5) resource misallocation, as public investments stimulated non-tradable sectors (construction/services) over tradables (agriculture/manufacturing), weakening export competitiveness and deepening trade imbalances.

The HGER document warning the consequences of continuing with the status quo, asserted that even though Ethiopia's public investment-led model initially spurred strong economic growth, its financing model has reached its limits, exacerbating macroeconomic vulnerabilities and imbalances that threaten growth sustainability. With dwindling external and domestic financing options—due to high debt distress risks, constrained export growth, and fragile domestic banks—the country can no longer sustain high public investments. Persistent forex shortages, an overvalued exchange rate, and double-digit inflation further undermine exports, remittances, and budget financing, making the GTP II target of 11% growth unfeasible under the old model. Even if external financing were available, continuing demand-driven growth would worsen imbalances; deepen debt distress, and fuel inflation, eroding living standards and monetary stability. Having made significant strides in infrastructure and human capital, the government must, therefore, pivot to private sector-led growth to harness past investments, generate fiscal revenues for debt servicing, and create jobs for the expanding population—ensuring long-term stability and inclusive development.

The HGER document contends that achieving sustained growth, generating sufficient employment for the growing population, and ensuring broad-based prosperity necessitates addressing macroeconomic imbalances. This involves shifting the growth model from demand-

driven to supply-driven, transitioning from debt-based to savings- and equity-based financing, and moving from public sector dominance to private sector leadership.

Thus, it's based on this rationale, the document argues, that the Government of Ethiopia (GOE) has launched its 'homegrown' economic reform program, structured around three key pillars: macro-financial, structural, and sectoral reforms (MoF, 2020).

The first reforms called macro-financial reform programs pursue economic stabilization and private sector development through five key reform measures: (1)Fiscal Sustainability: maintaining a 3% deficit ceiling through tax reforms (targeting 20% tax-to-GDP via modernized VAT/excise systems and digital tax administration), rationalized subsidies, and improved public investment efficiency using public-private partnerships(PPPs) and rigorous project screening; (2) SOE Restructuring: accelerating privatization, improving governance, completing stalled projects, and reprofiling SOE debts while strengthening oversight through enhanced institutional frameworks; (3) Exchange Rate Reform: gradual transition to a market-based exchange rate system by building reserves, correcting overvaluation, easing forex controls, and boosting forex earnings through export, tourism and FDI promotion; (4) Monetary Policy Modernization: shifting to interest rate-based frameworks using market instruments (term deposits, certificates of deposit) while moving away from direct budget financing and strengthening NBE's capacity for price stability; (5) Financial Sector Development: repealing the 27 percent NBE bill to free up liquidity, establishing T-bill and interbank markets, launching a stock exchange, expanding credit bureaus, and promoting financial inclusion through mobile payment technologies.

These reforms, the HGER document argues, will be carefully sequenced to maintain debt sustainability (via concessional borrowing limits and obligation restructuring) while addressing macroeconomic imbalances, with the collective aim of reducing external debt distress risk from high to moderate and supporting Ethiopia's transition to middle-income status through improved infrastructure and human capital investments

The other HGER reform pillar, the structural reforms, aim to comprehensively address critical bottlenecks to private sector growth through six interconnected pillars: (1) Streamlining business regulations by cutting licensing requirements by 30% and simplifying market entry/exit procedures; (2) Enhancing trade competitiveness through tariff reductions, WTO accession, and

addressing non-tariff barriers affecting 96% of traders; (3) Strengthening public institutions via ICT adoption and improved governance; (4) Modernizing logistics through sector liberalization, digital customs systems, and Ethiopian Shipping and Logistics Services Enterprise(ESLSE) restructuring; (5) Transforming the power sector with cost-reflective tariffs, private sector participation (independent power producers (IPPs)/PPPs), and universal electrification targets (65% grid/35% off-grid by 2025); and (6) Liberalizing telecom through new operator licenses and Ethio-telecom partial privatization. These coordinated reforms - targeting Ethiopia's poor business rankings (176th in startup ease, 126th in logistics) - collectively aim to reduce bureaucratic hurdles, improve infrastructure efficiency, and foster competition, creating an enabling environment for productivity growth, export competitiveness, and private sector-led development.

The last reform pillar, the sectoral reforms aim to drive economic transformation through reform measures in five key sectors: (1) Agricultural modernization via land lease systems, enhanced smallholder productivity (95% of crop production), and strengthened livestock value chains, targeting import substitution and export growth; (2) Mining sector development through formalization of artisanal mining (employing 1.5 million), streamlined licensing, and community engagement frameworks; (3) Manufacturing revitalization by repositioning industrial parks, strengthening local value chains, and boosting worker productivity through TVET reforms; (4) Tourism expansion leveraging Ethiopia's 25% revenue growth potential via site upgrades, MICE tourism (meetings, incentives, conferences and exhibitions), and professionalized services; (5) Digital economy acceleration capitalizing on 250,000 annual STEM graduates, with ICT parks, e-governance and sandbox regulations fostering tech innovation. These coordinated reforms enhance value chains, substitute imports (particularly in wheat/cotton), expand exports (coffee/horticulture/mining), and deepen private sector participation across all productive sectors.

Using the HGER as a foundation the government came up with a Ten Years Development Plan: Pathway to prosperity from 2021-2030. This long term development plan has a vision of Making Ethiopia an "African Beacon of Prosperity". The Ten Year development Plan (TYDP/2021-2030) builds on the outcomes of GTP I and II, and the policy directions of HGER (Ethiopian Economic Association, 2022).

Going through The TYDP plan, which is available online, shows that the plan establishes the nation's long-term framework for sustainable progress. Focused on tackling economic, social, administrative, and institutional hurdles through domestically-driven reforms, the plan targets key areas like economic expansion, poverty alleviation, sectoral advancement, energy, innovation, and human resource capacity. Its core objectives center on elevating living standards, broadening access to essential services, promoting gender equality, and strengthening regional ties. The plan prioritizes securing sustainable financing mechanisms, fostering private sector development, and driving institutional reform.

Strategic pillars include achieving diversified economic growth, advancing the financial sector, building critical infrastructure, managing urban development, and establishing inclusive institutions. The plan charts a course towards a lower middle income country by 2030 by setting targets, paving the way, ultimately for higher-income economy, significant poverty reduction, structural economic transformation, and enhanced competitiveness – powered by investments in human capital and robust private sector engagement, aiming for lasting national prosperity.

5.5. What's homegrown about the "Homegrown Economic Reform Agenda"?

The economic narratives have undergone a significant shift from developmentalism to a homegrown economy narrative following the government's unveiling of a 'homegrown economic reform' in September 2019(Yidnekachew Ayele & Cochrane, 2024; World Bank, 2020). These reforms became a bone of contention as they ignited numerous debates from academics, political figures and policy makers. While critics such as Bekri Jemal(2024); Alemayehu Geda(2019); Ayele Gelan(2020); Zinabu Samaro(2019); Asayehegn Desta(2019); Ermias Yemanebirhan(2022) and others argue that it's a sugarcoated neoliberal subscription of the "Washington Consensus" structural adjustment programs(SAPs) deliberately packaged as "homegrown" to satisfy World Bank and IMF loan conditionalities, others, mostly the government and those around the government circle, (such as Arkebe Okubay,2019; Almariam(2019), Eyob Tekalegn(2019) hail it as an "Addis Ababa Consensus" homegrown reform grounded on the contextual realities of the country.

Whether or not the 'homegrown' economic reform is really a homegrown or an imposed neoliberal prescription would only be examined in light of the conceptual framework of what homegrown reforms are and the neoliberal schemes discussed in chapter two.

5.5.1. Conceptualizing Homegrown Development

According to Efretuei(2007, p.4), the concept of 'homegrown' development has been introduced in the late 1990s with Thabo Mbeki's speech, the then Vice-President and later President of the Republic of South Africa. The concept was reintroduced into the mainstream development discourse as a new development method by the New Partnership for African Development (NEPAD) (Agupusi, 2012). NEPAD's promotion of homegrown development initiatives is intrinsically linked to its vision of an African renaissance—a revival that centers on self-determined progress. By advocating for locally rooted strategies, NEPAD seeks to redefine Africa's development trajectory, moving away from dependency on external frameworks and instead fostering endogenous solutions tailored to the continent's diverse contexts and aspirations (Agupusi, 2012, p.3). NEPAD's call for an African renaissance through homegrown development initiatives was grounded on three fundamental premises that: (1) past externally-imposed development models have proven ineffective across Africa; (2) the economic success of nations like China and Brazil demonstrates the power of indigenous development pathways; and (3) Africa's rich diversity necessitates customized solutions that leverage each region's distinct needs, priorities, and competitive strengths for meaningful progress(Agupusi, 2012, p.1).

The concept of homegrown development could mean different things to different people. The concept is often interchangeably used with 'country ownership' in World Bank and IMF discourse, while alternative scholarships frame it as an 'indigenous approach' **(**Agupusi, 2012, p.3). Easterly (2006,) criticizing "the one size fits all" approach of the World Bank, argues that homegrown development (HGD) strategy, through the dynamism of individuals and firms in the free market, serves as a sustainable path to poverty reduction and for long-term growth. Attributing the Asian Tigers' success to homegrown development strategy, he suggests HGD combines indigenous innovation with selective adoption of foreign ideas, though he never formally defines the concept. Morgan et al. (2009) in an effort to examine how rural American communities implemented homegrown development strategies as a response to global economic uncertainties, framed homegrown development as a strategic alternative to industrial recruitment, emphasizing the mobilization of endogenous local assets rather than pursuing external investment as the primary growth mechanism. Datta & Young (2011) assert that effective homegrown strategies are solutions necessarily emerging from locally-generated knowledge and

context-specific policies, rejecting universal development blueprints. Sabbi(2023, p.183) presents homegrown development strategies as counter-hegemonic approaches that disrupt Eurocentric development paradigms and assert Global South epistemic agency in development processes. Rahman(2012, p.86) defines homegrown development strategy as the incarnation of the people's analysis of development, strengthened through parliament's direct involvement and con-text-specific policies, without donor intrusion or loan conditionality.

Stiglitz (1998) critiquing conventional development strategies for their narrow prioritization of GDP growth, resource allocation, and macroeconomic stabilization (e.g., fiscal adjustments), advocates instead for what he dubbed a 'new paradigm' that transcends technical fixes (e.g. optimized planning or trade policies) and centers on participatory, ownership-based and society-embedded approaches to development. Emphasizing on the importance of policy ownership and participation, Stiglitz (1998, p.21) adds:

> *Key ingredients in a successful development strategy are ownership and participation. We have seen again and again that ownership is essential for successful transformation: policies that are imposed from outside may be grudgingly accepted on a superficial basis, but will rarely be implemented as intended. But to achieve the desired ownership and transformation, the process that leads to that strategy must be participatory. Development cannot be just a matter of negotiations between a donor and the government. Development must reach deeper. It must involve and support groups in civil society…Ownership and participation are also necessary if the development strategy is to be adapted to the circumstances of the country.*

Rahman(2012) notes that policy ownership became crucial in 1990s development cooperation following the failure of donor-driven strategies, particularly the unsuccessful Structural Adjustment Programs (SAPs) imposed by the World Bank and IMF as loan conditions during the 1980s. As a result, a new approach called Poverty Reduction Strategy Papers (PRSP) framework was introduced requiring borrower nations to develop poverty reduction strategies through multi-stakeholder participation to ensure national ownership of development priorities (Rahman,2012). By ownership, Wolfensohn (1999, cited in Rahman 2012, p.85) argues, it's meant that "loan receiving countries must be in the driver's seat and set the course" autonomously setting "the

goals and the phasing, timing and sequencing of the programs" without external interference. Sobhan (2002) further emphasized that genuine ownership requires domestic expertise, inclusive stakeholder consultations, and broad political consensus.

Therefore, all the above attempted conceptualizations boil down to Agupusi's (2012, pp.4-5) working definition of homegrown as:

> *an approach to development that emphasizes seeking answers from within. It is about having local actors take control of development agenda and process by taking advantage of local institution, resources and draws on local knowledge while appropriating foreign knowledge and technology diffusion…A homegrown development framework is one that is initiated, crafted and implemented by a country with attention to unique local imperatives such as, socioeconomic structures, histories and characteristics. It is contextual and does not, by its nature, presuppose commitment to any ideology, procedure or policy prescription. It implies the absence of external conditionality in any form, but the freedom to borrow, accept, or reject inputs from external sources.*

It's in light of this homegrown conceptual framework, therefore, that we try to examine the genuineness of the Ethiopian homegrown economic reform agenda.

First, one common thing we saw among the critics of the HGER is that the reform agenda is not homegrown but a neoliberal agenda. This debate is fruitless from the outset as one can see from the HGER document that virtually all the policy prescriptions forwarded by the HGER document are neoliberal oriented. If one goes from page to page of the HGER document, the contents indicate the "Washington Consensus" policy prescriptions which were adopted by many African countries during the 1980s under SAP. Both the language and the content of the HGER document reveals the policy prescriptions such as fiscal austerity, liberalization of the the financial sector, privatization of the SOEs, deregulation of the market, allowing a flexible foreign exchange regime, reducing the role of the government and allowing private sectors to lead the economy, are all 'vocabularies' from the right-wing neoliberal dictionary. Therefore, one has to be willingly blind not to see that the reform measures under HGER are neoliberal in nature. The question is whether or not these policy reforms are imposed by Bretton woods institutions, mainly IMF and WB as opposed to whether they are context-specific, based on local imperatives,

and have passed through scrutiny by participating all segments of society such as from the academia, public, experts, opposition party leaders etc. before a decision was made. … That's what tells us about homegrown idea.

Based on the general conceptual framework of homegrown development reviewed above, and according to Agupusi (2012, p.16), in order for any policy measure to be homegrown, it must fulfill at least four basic qualities. It must be "locally initiated, crafted, implemented and owned".

To what degree does HGER fulfill these basic elements is the question this analysis is up to answer.

In light of this, one issue that could be raised is the reform program's participatory aspect. Almariam (2019) presented the critics in relation to how wrong it was to privatize some of the largest SOEs without public consultation and debating it out in parliament. Ayele Gelan(2020) also claims that there was no enough evidence that could indicate the reform agenda was from an "Addis Ababa consensus". He criticizes the government's lack of transparency and public consultation before the formulation and launching of the reform agenda. According to him, it's a year after the launching of the reform agenda that the government engaged in trying to convince that the reform agenda was homegrown based on "*Addis Ababa Concensus*" as opposed to Washington Consensus. This initiation of convincing the public about the reform program by the government came about only when the government feels the wrath of the public about the lack of the transparency which makes it "*an afterthought: public participation coming at the end rather than the beginning of the decision-making process*"(Ayele Gelan,2020: no pagination). He adds the policy document lacks transparency in that there was no background study behind the reform agenda that informs all stakeholders.

Disputing this criticism from *Addis Fortune*(Oct 26, 2019: no pagination), an anonymous writer, probably a government official, whose identity *Fortune* says withheld upon request, disputes this accusation of lack of transparency about the policy document by saying:

> *Government representatives are on the record saying, the term is used to refer to the fact that the Reform Agenda is designed to address the country's current economic challenges; was formulated by the government; and will reflect the views of the domestic*

> *public. If we want to make it truly homegrown, let us focus on providing productive and substantive feedback and challenge the government (*Anonymous commentary on Addis Fortune magazine Oct 26, 2019: no pagination).

However, this argument is still not valid as it's asking to take the government's words for it. It's like saying the reform agenda is "homegrown" because the government said so. This anonymous writer also tries to render futile the argument forwarded above that there was no sound background of study behind the reform agenda, by arguing that one cannot take the absence of evidence (i.e. the fact one could not find a background study) as evidence that the government did not conduct one. However, this argument still falls short of understanding the logic that if the reform agenda is to be called "homegrown", it's only natural that the government should make transparent the whole process of arriving at this reform agenda, including revealing the background study.

Ayele Gelan(2020) tries to mention some of the reasons behind the government's as to why the reform agenda was shrouded with secrecy and little public participation, why the government resorted to the privatization scheme without solid evidence for decision making. He argues some of the things that could explain this are those including the wrong diagnosis that foreign exchange is the main economic bottleneck, the pressure from the global influencers (i.e IMF and WB), and the long hands of interest groups such as "the Big Four"[7] who would want to lay hands on the Ethiopian "commanding heights"(i.e. the so-called cash cow public assets).

Another qualifier whether the reform agenda is a 'homegrown' or not is its appeal to local imperatives. That is, whether or not the reform agenda is based on the real diagnosis of the past economic malaises. In line with this, the reform agenda has been entertaining significant criticism from different critics. One of the prominent critics is Alemayehu Geda who is a professor of economics in Addis Ababa University. In his critic Alemayehu Geda(2019, p.1) forwards:

> *A closer examination of the "homegrown" economic policy reform shows that it doesn't look homegrown as strongly as claimed. Why? Because it is strikingly similar to a typical IMF program for reforming (read liberalizing) developing countries and copied from such*

[7] The four largest accounting firms in the world: Ernst & Young, Deloitte, PriceWaterhouseCoopers and Klynveld Peat Marwick Goerdeler (KPMG)

templates (Just look at IMF Pamphlet series No. 47, 2019). Why? because it doesn't start from understanding of what the real economic problems at home are. As a result, the review and diagnosis in the policy are based on such templates instead of the real issue on the ground.

Alemayehu Geda(2019, p.1) argues the growth analysis is flawed because it overstates capital accumulation's contribution (claiming 5.2 percent of the 10 percent GDP growth) while reducing efficiency(TFP)'s true role to 2.6 percent when the proper analysis of the official data would have given 6.7 percent. In reality, capital contributed only 1.6 percent, labor 2.4 percent, and technology, approximately 1 percent, which is consistent with Ethiopia's historical patterns and below advanced economies' 2 percent baseline. This misdiagnosis skewed the "homegrown" policy's focus toward capital-centric solutions rather than addressing the actual productivity drivers (technology/rainfall).

Alemayehu Geda(2019) also critiques the government for failing to understand what the real structural problems are. According to him, what the reform agenda identifies as structural economic problems are not structural, making the proposed policies to address them equally misguided. The real structures, he argues, are to do with structural deficiencies such as underdeveloped human capital, chronic food insecurity, stagnant export earnings (below $3 billion annually), severe import dependency ($18 billion/year, with 70% being strategic goods), weak domestic savings (10-20% of GDP) forcing reliance on external sector, structural unemployment, and inflationary pressures (118% overall, 23% food inflation) exacerbating poverty and inequality. These structural problems deviate from what the reform document identify them to be as bureaucratic inefficiency, corruption, trade barriers, weak logistics, power unreliability, forex scarcity, and limited financial access. Here the difference is that what Alemayehu Geda(2019, p.2) identifies as structural issues are economic in nature while what the government dubs structural are mostly institutional. These, Alemayehu Geda(prof.) says, are problems which have facilitative roles in existing markets that don't have structural problems of the sort he mentioned.

Complementing this line of argument also is Ayele Gelan(2020) who critiques the government's view about the health of the Ethiopian economy. He argues that the government's economic narrative heavily relies on GDP growth rates while ignoring underlying economic weaknesses,

mistaking aggregate growth (GDP) for widespread prosperity, despite poor sectoral, regional, and microeconomic fundamentals. According to him, the government focuses on superficial reforms, like privatization and foreign sector imbalances, rather than addressing deeper structural issues. True reform requires addressing deep-rooted structural problems, not just surface-level adjustments like privatization (Ayele Gelan, 2020).

Zinabu Samaro(2019) blames the government for failing to do "an in-depth stocktaking exercise on the previous development models, approaches, strategies, policies and programmes of the EPRDF government", and for boarding onto a neoliberal boat for fishing remedies without a good diagnosis of the real problems. He argues even though, the reform agenda indicates that past economic success has not led to structural transformation, it fails to link this to the EPRDF government's skewed priorities; such as, neglecting industrialization and modern economic development in favor of social sectors (education, health) and rural poverty reduction, driven by global agendas like the MDGs, which are like treating symptoms rather than root causes. He contends that the reform plan offers an ideologically skewed and superficial analysis of Ethiopia's economic woes, failing to acknowledge that: (1) World Bank loans (constituting 1/3 of debt) funded non-transformative social programs instead of productive investments; (2) inflation stems from external shocks like oil prices rather than just domestic factors, making repeated currency devaluations ineffective; and (3) forex shortages trace back to 1990s trade liberalization-induced deficits and continued squandering of reserves on non-essential imports rather than mere export-import imbalances.

Zinabu Samaro(2019) argues a truly homegrown privatization strategy would critically analyze past privatization outcomes to understand why certain sectors (like breweries) succeeded while others failed; thoroughly assess and address inefficiencies in state enterprises like Ethio Telecom before considering privatization, prioritizing domestic investors and market liberalization over foreign sell-offs; and incorporate global lessons showing a shift away from utility privatization toward renationalization, rather than blindly following ideological privatization mandates. He concludes the reform plan lacks being genuinely homegrown labeling it as essentially a rebrand of the failed Washington Consensus model, prioritizing donor approval through neoliberal measures designed to temporarily ease forex shortages for import dependency, rather than pursuing structural transformation for sustainable and inclusive development.

However, in a response to the criticisms that the reform program has neoliberal orientations, Eyob Tekalign (PhD), Ethiopia's former state minister of Finance, currently an NBE governor, argues the reform program is "homegrown and heterodox in its nature", which transcends ideological rigidities, adopting instead a pragmatic approach to mitigate emerging economic problems(Eyob Tekalegn,2019). He argues critics wrongly equate Ethiopia's current reforms with the 1980s–90s structural adjustment programs (SAPs), ignoring stark contextual differences in timing, purpose and approach. Unlike SAP-era economies, which faced collapse, negative growth, and dire social conditions, Ethiopia's homegrown reforms aim to sustain its existing double-digit growth by addressing macro-financial imbalances, not reversing crisis. Ethiopia's heavy prior investments in its economic fundamentals (infrastructure and human capital) (absent in SAP-era cases) create fertile ground for private-sector response, enabling market-based reforms to actually boost supply and quality growth (Eyob Tekalegn,2019).

With this line of argument Eyob Tekalegn(2019) did not bluntly deny the fact that the reform measures are neoliberal in nature. Rather he highlighted how Ethiopia's adoption of market-oriented measures differs from the Structural Adjustment Programs (SAPs) imposed on crisis-stricken African economies in the 1980s.

Responding to what looks like the critiques of Alemayehu Geda about the misguided growth analysis and the sources of growth, Eyob Tekalegn(PhD), gave rather self-conflicting arguments. He argued, on one hand, that the traditional growth accounting methods (which breaks down growth into capital, labor, and productivity contributions) are unreliable and susceptible to statistical uncertainties. Because of these uncertainties, he adds, "*the reform agenda relies on broader diagnostic analyses, beyond the decomposition of growth into the contributions of the factors of production*". On the other hand, when it comes to explaining the role of capital accumulation in driving growth, he contradicts this skepticism by presenting statistical sources (national accounts, public finance data, sectoral data) as authoritative evidence that investment(capital accumulation) has indeed been Ethiopia's primary growth driver, leaving Alemayehu Geda(2019)'s critics about the growth diagnosis still unresolved.

Another piece of evidence that can be presented that makes us question the genuine 'homegrown'-ness of the reform program is the Letter of Intent written on December 11, 2019 to IMF's managing director, Kristalina Georgieva, by Ahmed Shide, Finance Minister of Ethiopia

and Yinager Dessie (PhD), Governor of the NBE at the time. The 33 page Letter of Intent has two attachments, Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU). The letter formally requests the IMF to facilitate the restructuring of Ethiopia's external debt while simultaneously seeking approval for new financial assistance programs under both the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) frameworks to support the country's "comprehensive economic reform agenda".

The Letter is full of pledges to align with IMF standards backed by monitoring and reporting. It pledges that the government commits to maintaining compliance with IMF Article VIII (avoiding exchange restrictions) and pledges to provide timely data to monitor exchange restrictions, currency practices, and adherence to IMF obligations. At one point in the letter, for example, it says "*The government [of Ethiopia] undertakes to not introduce any new measures that are inconsistent with Article VIII of the IMF Articles of Agreement*". This shows that there was a compromise in policy ownership as well as in the implementation process of the reform program which is conceptually contradictory to the homegrown rhetoric by the Prosperity Party.

In a response to the Letter of Intent, The IMF in its December 2019 Article IV consultation report (Country Report No. 20/29), endorsed Ethiopia's Homegrown Economic Reform (HGER) program and approved financing under the Extended Fund Facility (EFF) and Extended Credit Facility (ECF) schemes, highlighting that the HGER falls within the IMF's core areas of expertise, mirroring the institution's traditional Structural Adjustment Programs (SAPs), as it encompasses fiscal, monetary, financial sector, and statistical reforms(IMF Country Report No. 20/29, 2019). This suggests the reform program was primarily tailored to meet IMF conditions from the outset, prioritizing short-term forex relief over genuine domestic economic priorities, thereby undermining the government's claim that these reforms were authentically homegrown and based on thorough local economic analysis.

These analyses collectively demonstrate that Ethiopia's Homegrown Economic Reform Agenda (HGER) fails to satisfy core criteria of authentic homegrown policies—local initiation, design, ownership, and implementation grounded in context-specific diagnostics of structural economic constraints, revealing instead an externally influenced framework misaligned with domestic realities. The policy reforms are also virtually neoliberal policy templates. The only difference may be that we are inclined to these policy measures by choice and not by imposition.

5.6. Assessment of implementation of the reform measures

As outlined in this chapter, the HGER reform plan aims to tackle economic challenges through three pillars: macro-financial reforms focusing on issues like foreign exchange, debt, inflation, and fiscal/monetary policy; structural reforms aimed at creating a favorable private sector business environment; and sectoral reforms targeting specific market failures to enhance productivity and unlock new growth sources. In line with this, this section tries to assess the reform measures which have been undertaken so far and the status of the economy**.**

I. Macro-Financial Reforms

When we see the reform implementation process so far, Ethiopia has implemented significant macro-financial reforms to stabilize the economy and modernize systems as per the HGER reform plan. Key measures in the macro-financial reform areas include phasing out inflationary direct central bank financing of the government's budget deficits, replacing it with competitive T-bill auctions along with private sector participation unlike the previous time and converting existing debt stock from the direct finances into long-term bonds (Berihu Assefa, 2022). Tax reforms restructured customs duties (from 0%, 5%, 10%, 20%, 30%, and 35% to 0%, 5%, 15%, 25%, and 35%) and excise taxes to boost local manufacturing focusing less on taxes of input materials for manufacturing and but more on final products, while SOE reforms began with a new privatization proclamation (No. 1206/2020) and partial telecom liberalization(MoF,2020). The financial sector saw the establishment of a Liabilities & Assets Management Corporation (LAMC) to address non-performance loans(NPLs) of banks, elimination of the 27% lending rule, and the creation of a capital market framework (proclamation No. 1248 /2021)(Berihu Assefa,2022).

II. Structural & Business Environment Reforms

Regarding structural & business environment reforms, cross-cutting structural reforms focusing on improving Ethiopia's investment climate through digitization and deregulation have been undertaken. The Ethiopian Investment Commission (EIC) spearheaded revisions to the investment law, shifting to a negative listing approach and recognizing intellectual property rights. Operational improvements included launching an Electronic Single Window for trade, digitizing business registration, licensing, construction permits, and tax processes (e-filing/e-

payment)(MoF,2024). Specific achievements encompassed reducing business startup procedures/time, abolishing newspaper publication requirements, accelerating construction permits through online systems, and establishing commercial dispute benches (MoF, 2024).

III. Sectoral Reforms (Agriculture & Manufacturing)

On the sectoral reforms, in agriculture, Ethiopia has undertaken comprehensive agricultural reforms, including, revising the overarching Agriculture and Rural Development policy to refocus the state on market-enabling roles and commercialization; piloting and drafting a revised Land Proclamation allowing land use rights as collateral (No Proclamation 456/2005); restructuring fertilizer procurement; adopting a National Seed Policy with supporting proclamations; removing duties on agricultural machinery to boost adoption; enacting financial frameworks (Movable Property Security Right proclamation, Warehouse Receipts System) (Proclamation No. 1147) to expand agricultural credit access; and developing a specialized contract farming law to modernize marketing and protect smallholders. These reforms collectively aim to transform agriculture through improved inputs, market access, finance, and land security (MoF,2024).

For manufacturing, Ethiopia has launched an e-commerce pilot project with Alibaba's eWTP platform, enabling SMEs to export selected products through UNECA collaboration. Additionally, preparatory work for the Manufacturing Industrial Policy (identifying 10 priority sub-sectors) and the Export Development Strategy (product/market diversification focus) is complete, though both policies await final approval (MoF, 2024). Progress includes drafting a national trade policy framework, advancing business-start reforms (legal revisions underway), and nearing completion (85%) of integrated trading legal frameworks for key export commodities (pulses, khat, livestock, hides). A proposal for performance-based manufacturer financing was submitted to the Commercial Bank of Ethiopia but remains undeveloped (MoF, 2024).

IV. Performance of the economy and other macroeconomic indicators

According to data analyzed from the World Bank development indicators database (WDI) and the African Development Bank (2025), Ethiopia's economy under PP has experienced a period of modest improvements, though it has been marked by significant volatility and persistent inflation. Overall economic growth has averaged 6.5% between 2018 and 2024. This period included a sharp deceleration from 8.3% in 2019 to 5.3% in 2022, a downturn which may be attributed to the domestic conflict. However, with the war's conclusion, the economy has rebounded onto an ascending trajectory, with growth rising from 6.6% in 2023 to 7.3% in 2024. A similar pattern is reflected in GDP per capita, which has grown at an annual average of 3.8% since 2018. After a decline to 2.6% in 2022, it has recovered to 3.9% in 2023 and 4.6% in 2024(World Bank WDI).

A major economic challenge has been persistently high inflation, which has averaged 22.6% annually since 2018. The rate surged from 12.9% in 2019 to a peak of 34.7% in 2022, exacerbated by the conflict, and remains high at 25.5% in 2024(World Bank WDI).

Sectoral performance has been mixed. In 2024, the industrial sector saw strong growth of 9.2%, driven by a rebound in manufacturing, mining, and construction. Agriculture also improved, growing at 7% in 2024, supported by the expansion of irrigated commercial farming, cluster farming, and new technologies. Conversely, growth in the services sector slightly slowed to 7.7%, with decelerations in hotels, transport, and financial intermediation. Despite the overall industrial growth, manufacturing expansion remains modest at 8.3 %(African Development Bank, 2025, p.1).

Structurally, the economy's composition has remained largely unchanged. In 2024, services constituted the largest share of GDP at 40.2%, followed by agriculture at 31.8% and industry at 29.1 %(African Development Bank, 2025, p.1)

Chapter 6: Comparative Analysis

In this section of our research, an attempt is made to comparatively analyze the political economy of development of the EPRDF and PP regimes by building on the individual regime cases reviewed in chapters four and five. The comparison is made by using the different aspects of the two regimes including orienting ideologies, political economy framework, political party structures, and development strategies.

6.1. Political economy contexts and ideational orientations

6.1.1. Transition to power

The transitions to power in Ethiopia under the EPRDF and Prosperity Party (PP) followed starkly different paths. The EPRDF coalition—comprising the TPLF, ANDM, and OPDO—came to power through a prolonged armed struggle, culminating in the military overthrow of the Derg regime in 1991. In contrast, the PP's rise stemmed from a peaceful but decisive internal power shift, as the OPDO and ANDM factions within the EPRDF aligned to challenge the TPLF's perceived dominance amid mass protests and political unrest (Tronvoll, 2021). This realignment, solidified through elite negotiations and public pressure rather than warfare, marked a critical departure from the EPRDF's revolutionary origins of coming to power. By 2018, the OPDO-ANDM alliance had effectively sidelined the TPLF, paving the way for Abiy Ahmed's leadership and the eventual dissolution of the EPRDF in favor of the PP. Thus, while the EPRDF seized power through military victory, its successor emerged from an intra-party political struggle, reflecting a fundamental shift in Ethiopia's political economy of regime change.

Upon assuming power, both regimes exhibited some similar approaches by calling on all political forces to return to Ethiopia and participate in the political process. However, a key difference emerged in their transitional processes: the EPRDF organized a national convention to establish a transitional government, while the Prosperity Party (PP) did not pursue such a formalized framework. Following the overthrow of the Derg regime, the EPRDF (comprising the TPLF, OPDO and ANDM) convened a landmark National Conference in July 1991 to form a transitional government, establish a legislative body and the Council of Representatives, draft a constitutional framework, and prepare for local and national elections (Dewaal,1992, p.721; Human Rights Watch, 1997). This gathering brought together 12 diverse political organizations to chart Ethiopia's political future (Merara Gudina, 2007). According to Human Rights

Watch(1997), however not all parties were allowed to send delegates to the conference , and EPRDF gathered in the peace talks and the transition process only "the liberation fronts that were supportive of or sympathetic to its ideology"(Mulatu Wubneh,2017, p.127). The national convention culminated in the adoption of a provisional charter and the establishment of a transitional government led by the EPRDF coalition (Kidane Mengisteab, 1997, p.122;De Waal,1992, p.719). The TGE launched Africa's most unique governance experiment by simultaneously pursuing political liberalization and ethnic federalization, a dual transformation that radically restructured Ethiopia's political and economic order (Aklilu Abrham, 2005; Kidane Mengisteab,1997, pp.124-125). The transition saw a radical restructuring of the political economy of the country: from military rule to electoral politics, from socialism to somewhat tamed market economy, and from unitary centralism to ethnic federalism (Aklilu Abrham, 2005; Kidane Mengisteab,1997, p.122).

While Abiy Ahmed's rise to power mirrored the EPRDF's earlier political transformations in its appeal for inclusivity—engaging armed groups, civil society, and regional actors alike—his approach notably diverged in one key aspect: the absence of a transitional government. Despite demands from opposition leaders, academics, and concerned citizens for a structured transition, Abiy instead asserted personal control over the process. His declaration, "እኔ አሻግራችኋለሁ" ("I will oversee the transition myself")(Amharic Reporter,2020, March 18) epitomized this unilateral approach, positioning himself as the sole architect of Ethiopia's shift toward the envisioned democratic order.

This distinction highlights how the EPRDF sought to institutionalize its transition through structured negotiations, whereas the PP's consolidation of power occurred without a comparable inclusive mechanism.

6.1.2. Party structures and Political governance framework

The party structures of the EPRDF and Prosperity Party (PP) reveal fundamental differences in their organizational and ideological approaches. The EPRDF operated as a coalition dominated by four core ethnic-based parties (TPLF, ANDM, OPDO and SEPDM). Its governance structure maintained strict equality among member parties in decision-making bodies - with each holding 250 seats in the Congress, 45 in the Central Committee, and 9 in the Executive Committee,

regardless of their actual political weight (Muhammed Seid, 2021, p.65). Beyond these primary members, the EPRDF incorporated five satellite/affilated parties from peripheral regions: the Somali People's Democratic Party (SPDP), Afar National Democratic Party (ANDP), Benishangul-Gumuz Peoples' Democratic Unity Front (BGPDUF), Gambella Peoples' Unity Democratic Movement (GPUDM), and Harari National League (Muhammed Seid, 2021, p.123), but excluded them from meaningful participation in coalition governance. The main reason why the affiliated parties were not a member of the coalition was due to the EPRDF's socialist class analysis that the agrarian class is the only viable political base for revolutionary democracy (Ermias Yemanebirhan, 2022, p.48). These peripheral parties had no meaningful role in the coalition's decision-making process, functioning merely as implementers of EPRDF directives under the close supervision of centrally-appointed political and economic advisors or "cadres" as they were known (Paulos Chanie, 2007, p.120; Abbinik, 2011, p.600).

In contrast, the PP's formation at the 2018 Hawassa conference marked a decisive break from this exclusionary model. By dissolving the EPRDF and fully integrating formerly marginalized regional parties from Somali, Gambella, Afar, Harari, and Benishangul-Gumuz into a unified structure, the PP abandoned the EPRDF's agrarian socialist ideology in favor of a more inclusive, pan-ethnic political framework (Ermias Yemanebirhan, 2022, p.48). This restructuring fundamentally transformed Ethiopia's political architecture from a core-periphery model to a nominally more equitable system. The PP's organizational structure reveals significant differences from its predecessor in both composition and representation logic. Its Executive Committee comprises 52 members, with Oromia, Amhara, and SNNP regions each receiving 9 seats (totaling 27), while Somali, Afar, Harari, Gambela, and Benishangul-Gumuz regions each get 5 seats (totaling 25). The Central Committee consists of 360 members, with all eight regional states receiving equal representation of 45 seats each(Workineh Teshome,2020). This allocation system appears arbitrary, lacking clear criteria or transparent policy justification. Unlike the EPRDF era, where committee representation followed the "one nation, one vote" principle that theoretically upheld multinational federalism, the PPs model - which grants equal representation in the central committee to vastly different regions like Oromia and Harari - represents a notable

departure from this foundational ethos without providing convincing rationale for its disproportional distribution of political power(Workineh Teshome,2020).

The political governance structure under the Prosperity Party (PP) maintains Ethiopia's ethnic federal framework while introducing notable modifications. The PP administration has overseen the creation of three new regional states (Sidama in 2019, Southwest in 2021, and Central Ethiopia in 2023) through constitutional referendums, expanding the federation to twelve regions. While Sidama represents a new ethnically designated unit, the Southwest, Central Ethiopia, and South Ethiopia regions adopt more multi-ethnic, territorial configurations (Voice of America, 2023). This restructuring demonstrates both continuity with and evolution of the ethnic federal system.

Unlike the EPRDF's rigid adherence to ethnic federalism, the PP appears more open to alternative administrative arrangements. This is evident in the agenda of the Ethiopian National Dialogue Commission (established under Proclamation No. 1265/2021), which has compiled diverse proposals from stakeholders regarding potential administrative reforms. According to Sheger FM(2025), among the requests given to the national dialogue commission for agenda setting are: the government requesting to amend the constitution, the request from the federal security forces including the Ethiopian national defense force to reconfigure the political map of the current regional states based on geography away from the old ways of ethnic and language based structuring. The issue of group vs. individual rights, land and natural resource use and management, access to the sea are also among the agendas presented by the stakeholders at the federal level to the national dialogue commission(Sheger FM 102.1 Radio Facebook page,2025 June 1).

These competing proposals highlight the ongoing struggle between maintaining Ethiopia's ethnic federal system and implementing administrative reforms, with security forces particularly emphasizing understandably the stability benefits of territorial reorganization. With this, one can argue that, the Prosperity Party (PP) is open for the possibility of reconfiguring the state along alternative lines, such as geographic or any other administrative criteria, as part of the agenda under discussion by the National Dialogue Commission. This signals a potential shift away from

the current ethnic-based system, though no formal changes have yet been implemented. According to the Ethiopian National Dialogue commission (2024), during the consultation phase of the agenda-setting process held in Addis Ababa, Prime Minister Abiy Ahmed (PhD) affirmed his government's commitment to implementing the decisions made through the dialogue. He also stated that any unresolved agendas would be settled through a referendum (Ethiopian National Dialogue commission, 2024). This tendency by the PP administration to entertain the potential restructuring of the country into geography based administration or any other proposed form is indeed a breakaway, at least theoretically, from the EPRDF's and other ethno-nationalist political forces' 'over-my-dead-body' stance about the possible idea of altering the ethnic federal structure.

6.1.3. Ideological Foundations

The ideological underpinnings of the EPRDF and Prosperity Party (PP) regimes differ fundamentally. While the EPRDF initially adopted a revolutionary democracy and a decade later resorted to developmental statism to anchor its political economy, the PP explicitly rejects such rigid ideological frameworks, advocating instead for a 'pragmatic' "*Medemer*" philosophy that positions itself as a homegrown alternative to ideological regidities. When examining these ideological transitions in depth, the fundamental divergence between the EPRDF and Prosperity Party becomes strikingly evident.

The EPRDF initially embraced "revolutionary democracy", prioritizing agrarian transformation and group rights over individual liberties, while claiming political legitimacy through democracy (Habtamu Girma, 2019). Later, it shifted to a developmental state model, staking its legitimacy on economic growth rather than democracy (Birhanu Bitew & Assabu Alemineh, 2021, p.1736). Although the EPRDF initially believed its political legitimacy would stem from democratization and expanding political freedoms, the 2005 elections proved this assumption disastrous. During the 2005 elections, the regime allowed unprecedented political openness, permitting opposition parties to campaign freely and publicly debate policies on state media (Birhanu Bitew & Assabu Alemineh, 2021, p.1737). However, the regime's strategic opening backfired dramatically when opposition parties made substantial gains, winning nearly a third of parliamentary seats and all

Addis Ababa constituencies, exposing both the depth of public discontent and the ruling party's miscalculation about its popular support(Lefort, 2015; Birhanu Bitew & Assabu Alemineh, 2021). The 2005 election results delivered a seismic shock to the EPRDF's political dominance, with opposition parties securing 174 of 547 federal parliamentary seats—reducing the ruling coalition to a contested 327-seat majority amid credible allegations of vote manipulation (Gilkes, 2015; Prunier, 2015).

Even with this ground breaking election results, the opposition groups denounced the results as fraudulent, their supporters mobilized mass protests, triggering a brutal security crackdown that resulted in numerous civilian deaths and the arbitrary arrest of prominent opposition figures (Lefort, 2015; Aalen & Tronvoll, 2009). This repression marked a definitive end to the EPRDF's brief experiment with political liberalization. The political legitimacy to be gained through "democratization" under the rubric of 'revolutionary democracy' was at stake after the 2005 election crisis, and another basis for legitimacy had to be crafted and this was through economic performance (Lefort, 2015; Clapham, 2019; Abiy Ahmed,2019). In the aftermath of the 2005 electoral crisis, the EPRDF abandoned its faltering democratic legitimacy project and pivoted decisively toward developmental state ideology (Gutu Olana, 2021, p.90). The regime calculated that sustained high economic growth rates could compensate for its political credibility deficit—a strategy that initially appeared successful as Ethiopia posted double-digit GDP growth for much of the subsequent decade (Abiy Ahmed, 2019). However, this growth-first approach proved temporally bounded in its legitimizing capacity. A decade later in 2015, accumulated grievances over political marginalization and uneven development benefits ignited mass protests among Ethiopia's two largest ethnic groups—the Oromo and Amhara—whose sustained anti-government demonstrations ultimately debunked the EPRDF's economic performance legitimacy narrative (Tronvoll,2021).

In contrast to EPRDF, PP explicitly rejects rigid ideological adherence, framing its approach as pragmatic and context-driven under the Medemer philosophy. Arguing that Ethiopia's recurring crises for the last 50 years stem fundamentally from the uncritical application of external ideological frameworks without adequate translation into local realities, PP advanced the idea

that Ethiopia needs to follow a made-in-Ethiopia homegrown paradigm, grounded in its context but informed by both indigenous and global knowledge (Abiy Ahmed,2019; Prosperity Party,2021). Medemer, as established in chapter five of this thesis research, is therefore an ideology of the Prosperity Party, articulated in Abiy's (2019) foundational text which is supposed to represent this pragmatic third-way approach that's supposed to consciously navigate between political and economic extremes. The framework explicitly rejects binary choices - whether between ethnic federalism and unitary centralism, or between state-led and laissez-faire economic models - advocating instead for contextually balanced solutions derived from Ethiopia's specific historical experiences and contemporary needs (Abiy Ahmed, 2019).

Hence, Medemer emerges, Abiy Ahmed(2019) argues, as the conceptual response to this imperative, an endogenous Ethiopian paradigm that synthesizes indigenous wisdom with globally relevant governance principles. By bridging Ethiopia's unique sociohistorical context with universal democratic and developmental values, it seeks to transcend the failures of previous imported models while offering a unifying framework for collective national progress.

PP posits that individual and group rights are interdependent, and insist that democracy and development are mutually reinforcing—with regime legitimacy contingent upon delivering both. Breaking from the EPRDF's ideological rigidities, the Prosperity Party (PP) claims to have adopted a pragmatic, context-driven and based on what-works approach under its Medemer philosophy (Prosperity Party, 2021). PP broke away from EPRDF's long standing ideological stance by critiquing revolutionary democracy ideology for biased treatment of elites (favoring political over economic actors), oversimplifying conflicts as purely economic matter, failing as a transitional model, maintaining authoritarianism under democratic pretenses, overemphasizing pre-capitalist systems, and prioritizing party control over institutional development which, PP argues, created a co-opted bureaucracy and hollow 'developmental state' that served regime survival, not national transformation. Together, these critiques underscore Revolutionary Democracy's role in perpetuating systemic inequities and stagnation, prompting the Prosperity Party's pragmatic, inclusive alternative under Medemer (Abiy Ahmed, 2019).

The EPRDF and Prosperity Party (PP) differ fundamentally in their diagnosis of Ethiopia's historical problems and their proposed solutions. The EPRDF framed the nation's problems as stemming from systemic political and economic marginalization, alongside cultural and linguistic domination by a single ethnic group (the Amhara)(Medhane Tadesse,2015; Vaughan,2015; Birhanu Bitew and Asabu Alemneh,2021, p.1728). In contrast, while the PP acknowledges the existence of past national oppression, it rejects the ethnic-specific hegemony narrative, arguing instead that authoritarian rulers—rather than any particular ethnic group—were the primary oppressors (Abiy Ahmed,2019). PP's oppression thesis identifies two systemic vectors in Ethiopia: man-made oppression through autocratic violence and patronage, and structural oppression via institutionalized marginalization of groups (ethnic, religious, regional, etc.)(Abiy Ahmed, 2019). Both persist due to regimes prioritizing short-term survival over transformative institution-building. As remedy, PP through its Medemer ideology prescribes democratic legitimacy—rejecting Ethiopia's historical reliance on divine right, force, or economic performance as unstable foundations. This highlights the need for an organic democracy that reconciles ethnic/civic identities, rectifies historical injustices progressively, and cultivates shared political culture through education (Abiy Ahmed, 2019).

Their approaches to reform also diverge sharply. The EPRDF pursued a radical overhaul, dismantling existing political and socio-economic structures to rebuild from scratch (Bereket Simon, 2018). The PP, however, adopts a corrective approach, seeking to reform past structures rather than erase them; emphasizing continuity and incremental improvement over revolutionary rupture (Abiy Ahmed, 2019).

6.2. Development Strategies

6.2.1. Transitional economic policy reforms

While the transitions under the EPRDF and Prosperity Party (PP) regimes occurred under different circumstances, key economic challenges persisted across both periods. The EPRDF's transition took place amid a stagnant economy, widespread poverty; recurring droughts, war-torn infrastructure, low productivity, severe fiscal constraints, and the absence of a strong domestic private sector to drive growth (see chapter four). In contrast, the PP's transition still faced lingering economic difficulties, despite the fact that the economy was no more stagnant, and

there were commendable progress in the areas of infrastructure and human capital development (Eyob Tekalegn,2019).

When we see the EPRDF's transitional period, confronted by the collapse of the socialist block at the global level and the economic conditions at home, EPRDF gave in to the neoliberal forces deviating from its socialist ideals (Labzaé & Planel, 2021, p.74; Medhane Tadesse, 2015). These two stark realities made Meles Zenawi, the then President of the TGE, in hope of maneuvering support from the western camp, declare that he was 'no longer a hard-line Marxist' and would from then on 'work for free enterprise'(Lefort,2015, p.360). Given the dire need to rebuild the country's economy, which without foreign aid was hardly possible, the EPRDF regime found it inevitable to align somewhat with the neoliberal settlement. However, the EPRDF did not dive all in for neoliberal fishing but rather tamed it to what Ziso(2018, p.75) called "a particular variant of an Ethiopian neoliberalism", shaped by pre-existing political economy conditions.

The EPRDF-led transitional government adopted, hybrid economic model that blended market-oriented reforms with strategic state intervention, diverging from orthodox neoliberalism. While acknowledging the failures of central planning of the past regime and implementing Structural Adjustment Programs (SAPs) under IMF/World Bank pressure in the 1990s, including currency devaluation, partial privatization, and financial reforms(Mulu Gebreeyesus,2016;Mekonnen Manyazewal,2019), the government maintained state control over strategic sectors (such as utilities, aviation, banking etc.) by privatizing only less critical enterprises, prioritized domestic investors, preserved public land ownership, and engaged in price stabilization - all contradicting neoliberal principles((Labzaé & Planel, 2021, p.74). This calibrated approach, described above as "Ethiopian neoliberalism" reflected a deliberate strategy to balance external pressures with national priorities, as evidenced by Meles Zenawi's admission of resisting full privatization and maintaining policy autonomy. The protracted, selective privatization process (300 enterprises over 23 years)(Bereket Simon,2018; Arkebe Okubay,2019) and repeated clashes with the IMF over financial sector liberalization(Stiglitz, 2002) demonstrated the regime's commitment to a state-led developmental approach, using SAPs more as a transition mechanism from socialism than a full embrace of market fundamentalism(Labzaé and Planel, 2021). The result was a distinctive mixed economy tailored to Ethiopia's post-war reconstruction needs and developmental context.

In stark contrast, the Prosperity Party (PP) assumed power under markedly different economic circumstances than its predecessor, inheriting an economy that had maintained double-digit growth momentum with substantial infrastructure and human capital development. However, this growth proved structurally deficient—characterized by persistent quality issues, failed structural transformation, and mounting vulnerabilities including severe unemployment, spiraling inflation, crippling living costs, unsustainable debt levels, and widening income inequality(MoF,2020). These deepening contradictions ultimately rendered Ethiopia's high-growth trajectory fundamentally unsustainable, necessitating urgent economic recalibration. As a result PP introduced a new economic reform program dubbed "Homegrown Economic Reform Agenda"/HGER in September 2019(MoF,2020).

The Homegrown Economic Reform (HGER) targeted to address structural weaknesses in Ethiopia's previously high-growth economy, which had achieved double-digit GDP growth (2004-2017) and success in poverty reduction, but remained fragile due to debt-fueled public investments, macroeconomic imbalances, and limited private sector development. The HGER program systematically targets five key challenges: chronic forex shortages, debt distress, limited private financing, high inflation, and resource misallocation favoring non-tradable sectors (MoF, 2020). Structured across three pillars, the reforms combine macroeconomic stabilization (through fiscal consolidation, SOE restructuring, exchange rate liberalization), structural enablers (business deregulation, trade facilitation, telecom/energy sector liberalization), and sectoral transformations (agricultural modernization, manufacturing revitalization, tourism, mining and digital economy development) (MoF, 2020). This comprehensive approach aims to transition Ethiopia from public sector-led to private sector-driven growth while maintaining strategic state oversight, with the ultimate goal of achieving middle-income status through balanced, sustainable development that leverages past infrastructure investments while correcting macroeconomic vulnerabilities (MoF, 2020).

However in contrast to EPRDF's transitional "New Economic Policy" with which the transitional economy was guided from command to market-oriented economy, in which tamed neoliberal policies were adopted, PP's transitional economic reform HGER were full blown neoliberal.

6.2.2. Diverging long term development models (Developmental State vs. Neoliberal models)

This analysis examines the diverging long term development models of EPRDF and PP by going through the key shifts in the two regime's approach to development. The EPRDF developmental state model has been replaced by the Neoliberal developmental Model. This shift is examined through the lenses of the sources of growth, development financing mechanisms, the role of the state and the private sector, macro-financial policies etc.

6.2.2.1. Sources of growth (From Demand-Driven to Supply-Driven Growth)

Ethiopia's development strategy has undergone a fundamental shift from the EPRDF's demand-driven growth model to the Prosperity Party's supply-side approach, representing two distinct visions for development. The EPRDF era (1991-2018) pursued a demand-driven strategy through massive state-led investments in infrastructure, social services, industrial parks, and agricultural subsidies, thereby artificially stimulating economic activity through public sector expansion and wage policies. While this approach achieved impressive GDP growth averaging 10% annually, it came with significant drawbacks including mounting public debt, inflationary pressures from fiscal deficits, and crowding out of private investment. In contrast, the Prosperity Party (2018–present) has pivoted to a supply-side model, prioritizing private investment over public investment. This approach seeks to drive growth by enhancing private sector productivity and competitiveness through market liberalization—notably opening telecommunications and banking to foreign investment, implementing export tax incentives, and reducing regulatory burdens. This shift is supposed to address the structural weaknesses of the previous development model of the EPRDF regime by boosting efficiency and attracting private capital. The critical difference lies in their growth drivers: where the EPRDF relied on government-created demand through public spending, the PP seeks to stimulate supply-side factors like private investment and productivity, representing a fundamental reorientation of Ethiopia's development paradigm with significant implications for long-term growth sustainability and economic structure.

6.2.2.2. Development financing Mechanisms

Ethiopia's financing model has undergone a significant transformation from the EPRDF's debt-dependent approach to the Prosperity Party's more diversified savings- and equity-based

strategy. Driven by the securitization of poverty as an existential threat and central national agenda since 1991 (Mekonnen Manyazewal, 2019), Ethiopia pursued its Agricultural Development-Led Industrialization (ADLI) strategy through a dual-track financing approach that fiercely guarded policy sovereignty. While resisting IMF demands for banking liberalization and deregulation as threats to national autonomy (Stiglitz, 2002), the government prioritized domestic resource mobilization: implementing significant tax reforms (VAT, automated systems) to expand the revenue base, restructuring public expenditure to shift focus from recurrent spending (down to 9.8% of GDP by 2016/17) to capital investment (averaging 10% of GDP), and boosting domestic savings from 9.3% to 24.1% of GDP (2001/2–2014/15) (Mekonnen Manyazewal, 2019). Concurrently, the government intensified innovative domestic financing mechanisms, including mandating private banks to allocate 27% of loan disbursements to NBE-bills for onward lending to the Development Bank of Ethiopia (Tomkinson, 2019), and issuing bonds like the GERD bond to fund national projects.

Despite these efforts, however, a persistent savings-investment gap (around 18% GDP) necessitated heavy reliance on external debt financing, where by Ethiopia secured $19.7 billion in external loans and aid (2010–2017), primarily concessional funding from diverse partners (World Bank, China, EU, etc.), pushing the overall public debt from 30% to over 60% of GDP by 2018. This debt-fueled growth model financed critical infrastructure like railways and dams but led to severe crowding out of private credit, financial repression through artificially low savings rates, and eventual debt distress requiring restructuring.

In contrast, the Prosperity Party has pivoted toward mobilizing more domestic savings through pension reforms, attracting foreign direct investment via liberalizing the banking sector, and developing capital markets. While still utilizing external borrowing, the PP's approach emphasizes diversified financing sources including growing remittance flows (exceeding $4B annually) and FDI in manufacturing sectors like textiles. This shift is supposed to address the EPRDF's debt sustainability challenges while fostering deeper financial markets, though the transition remains incomplete with Ethiopia still balancing between legacy debt obligations and the need to build robust domestic savings and investment mechanisms for long-term growth stability. The key distinction lies in financial architecture: where the EPRDF prioritized state-

directed credit through debt accumulation, the PP seeks to cultivate market-based financing channels while managing inherited debt vulnerabilities.

6.2.2.3. The role of the state and the private sectors (From State-Led to Private Sector-Led Development)

Ethiopia's economic governance has undergone a fundamental transformation from the EPRDF's state-dominated model to the Prosperity Party's private sector-led market-oriented approach. Under the EPRDF, Ethiopia pursued a state-centric, demand-driven growth model fueled by massive public investment and debt financing. The government acted as the primary economic driver, pouring resources into infrastructure megaprojects like GERD and industrial parks while tightly controlling strategic sectors through SOEs. This approach delivered rapid GDP growth, infrastructure expansion, human capital development and poverty reduction but proved unsustainable as it did not result in structural transformation. The agricultural sector, anchored by the ADLI strategy, remained the dominant but low-productivity engine of growth, employing 85% of the workforce while contributing diminishing returns. The system created significant structural imbalances, with SOEs draining public resources while private sector development remained stunted.

The Prosperity Party has engineered a fundamental reorientation toward market-driven, supply-side development strategy, though the transition remains incomplete. Recognizing the limitations of the EPRDF model, the PP has pivoted to private sector-led growth through sweeping liberalization measures - opening telecom, banking, and logistics to competition while promoting FDI and public-private partnerships. This shift toward private sector-led growth focuses on three key reforms: privatization of SOEs (such as Ethio Telecom, Ethiopian Airlines subsidiaries and other SOEs), deregulation (streamlined business licensing and forex reforms), and a new industrial policy emphasizing private investment in industrial zones. The fundamental contrast between the two models lies in their approach to economic actors and policy implementation. Where the EPRDF relied on SOEs as primary economic drivers through command-and-control planning, the PP emphasizes market incentives and private sector growth. While the EPRDF's state-led development achieved double digit economic growth,

infrastructure expansion and human capital development but suffered from inefficiency, the PP's private-led model promises to sustain this achieved economic growth and bring structural transformation by letting the private sector take over the driver's seat of the economy. While the role of the government in the EPRDF is dominant, the role of the state in the case of PP is to be diminished to only selective interventions where the private sector does not reach (HGER document, 2019.

6.2.2.4. From Agriculture as the Engine of Growth to a more balanced Multi-Sectoral Approach

Ethiopia's economic strategy has evolved significantly from the EPRDF's agricultural focus to the Prosperity Party's diversified, multi-sectoral approach. Under the EPRDF (1991-2018), the Agricultural Development-Led Industrialization (ADLI) strategy prioritized smallholder farming, which employed 85% of the workforce (Mekonnen Manyazewal and Admasu Shiferaw,2019), but remained largely subsistence-based due to land leasing restrictions and limited commercialization. While this approach reduced poverty, it resulted in stagnant productivity growth and left the economy vulnerable to climate shocks, with periodic droughts causing GDP fluctuations. The EPRDF's industrialization efforts focused narrowly on agro-processing, maintaining agriculture as the dominant economic engine.

On the contrary, the Prosperity Party has made a fundamental shift toward a more balanced economic model. This new approach combines commercial agriculture (including large-scale avocado and flower exports) with targeted manufacturing growth in textiles, pharmaceuticals, and value-added agro-industry, alongside service sector expansion in fintech, logistics, and tourism.

The key differences between these models are that where the EPRDF relied on smallholder agriculture productivity as the primary growth driver with limited value addition, the PP aims to foster interconnected and balanced sectoral development. While the agricultural sector remains important, it is now part of a more complex economic ecosystem where manufacturing and services play complementary roles (HGER document, 2019). This shift is aimed at addressing structural weaknesses of the past. Ethiopia's development trajectory now reflects a more

ambitious development paradigm aspiring to unlock new growth potentials (such as manufacturing, mining, tourism, ICT), moving beyond agricultural dependence while seeking to preserve the sector's social and economic contributions (HGER document, 2019).

6.2.2.5. Macroeconomic Policy Divergence

The EPRDF regime systematically subordinated Washington Consensus tenets to state-led development, wielding macro-policy as a sovereign tool: it deployed discretionary fiscal interventions, spiking deficits for infrastructure or curbing inflation through contraction, while rejecting austerity; imposed financial repression via administered interest rates, forex controls, and the 27% NBE-bill mandate forcing private banks to fund state priorities (Tomkinson, 2019); maintained overvalued exchange rates; expanded SOEs as opposed to full privatization; and shielded domestic industries with trade barriers—all channeling capital toward strategic GTP sectors. Conversely, the Prosperity Party has fully internalized neoliberal orthodoxy under its HGER agenda: enforcing fiscal austerity (≤3% deficit cap) through base-broadening tax reforms and subsidy cuts; liberalizing finance by repealing the NBE rule, maintaining a flexible exchange rate, and opening banking/telecom to FDI; accelerating SOE privatizations; and shifting monetary policy to inflation targeting—thereby aligning with Washington Consensus pillars of fiscal discipline, market liberalization, and state withdrawal(Berihu Assefa,2022).

6.3. The degree of homegrown-ness of the two development models

This comparative analysis evaluates Ethiopia's EPRDF and Prosperity Party development approaches through the framework of homegrown development, exposing a critical disconnect between claimed indigenous solutions and actual policymaking realities. While the EPRDF (1991-2018) never explicitly branded its approach as "homegrown", its development model demonstrated relatively stronger authentic homegrown characteristics than the Prosperity Party's explicitly named Homegrown Economic Reform (HGER) as can be demonstrated in the following section.

The EPRDF's economic evolution demonstrates a complex negotiation between ideological roots and pragmatic adaptation. Its initial economic policies were shaped by post-war realities rather than doctrinal purity. Despite its Marxist-Leninist roots (Tomkinson, 2019), the regime

abandoned Albanian-style socialism upon taking power in 1991, recognizing the collapse of the socialist bloc and the necessity of engaging with global capitalism (Labzaé & Planel, 2021). This shows the regime's will to transcend ideological rigidities and adapt to global and local contextual realities. This shift was not also a wholesale embrace of neoliberalism but a defensive adaptation—what Meles Zenawi later described as a "rearguard fight" to resist excessive privatization (De Waal, 2012). Emerging from Marxist-Leninist revolutionary democracy, the regime resisted neoliberal prescriptions despite adopting selective market reforms under Structural Adjustment Programs (SAPs) in the 1990s (Labzaé & Planel, 2021). This period saw the paradoxical implementation of a New Economic Policy that maintained state control over strategic sectors while paying lip service to liberalization (Naude, 1998). In defiance of IMF recommendations, the government preserved state ownership of land as a fundamental policy (TGE, 1991). The regime implemented selective privatization that focused on non-essential enterprises while retaining control over key "commanding heights" of the economy (Arkebe Okubay, 2019). This shows that the EPRDF was attempting to adapt a contextual based policy measures rejecting a wholesale neoliberal imposition which can be considered as a pragmatic/ homegrown approach to economic problems grounded in the domestic economic realities.

Through its Agricultural Development-Led Industrialization (ADLI) strategy launched in 1993, the EPRDF regime made the agriculture sector at the core of the development process which makes the strategy a homegrown as it was grounded on the contextual local realities given the comparative advantage Ethiopia has in agriculture. This approach evolved into a more comprehensive Developmental State Model after 2001, which while drawing inspiration from East Asian countries, was fundamentally reworked to align with Ethiopia's local political economy context without any imposition (Chang & Hauge, 2019). This satisfies Agupusi(2012)'s fundamental requirement of local initiation and local crafting requirement for a development approach to be considered authentically homegrown as conceptualized in chapter five. The model's innovative reframing of poverty as an existential national security threat (Meles Zenawi, 2006) represented a radical departure from conventional neoliberal poverty reduction approaches. The EPRDF consistently resisted full economic liberalization, maintaining a closed banking sector to foreign investors (Stiglitz, 2002) and channeling state-owned

enterprises into party-affiliated endowment structures like EFFORT and Tiret rather than pursuing outright privatization (Berhanu Abegaz, 2013). These strategic choices reflected a deliberate local crafting process that blended selective state intervention with controlled market mechanisms, creating a development paradigm that diverged significantly from orthodox neoliberalism while remaining responsive to Ethiopia's specific socioeconomic realities and political priorities. The regime's ability to selectively adapt rather than fully adopt external prescriptions reflects its success in maintaining policy sovereignty while engaging with global economic systems. By maintaining control over strategic sectors and implementing reforms on its own terms, the EPRDF established a development model that was genuinely rooted in local conditions and priorities, which makes it homegrown. However the EPRDF's top-down decision-making, operating through democratic centralism (as detailed in Chapter Four), excludes both lower-ranking cadres and the public, fundamentally violating the fundamental requirement of policy ownership by the public thereby undermining homegrown nature of its development policies.

In contrast, the PP's Homegrown Economic Reform (HGER) agenda represents a decisive break from its predecessor's ADLI strategy and developmental state model. While rhetorically framed as an indigenous response to the country's contextual economic conditions, the HGER's core pillars - fiscal austerity, privatization, and financial liberalization etc. - bear striking resemblance to IMF structural adjustment templates (Alemayehu Geda, 2019; IMF Country Report No. 20/29, 2019) as well-demonstrated in chapter five. The regime's 2019 Letter of Intent to the IMF, pledging compliance with Article VIII obligations and detailing reform conditionalities, fundamentally undermines claims of genuine homegrown. Critics highlight how the HGER's design process excluded meaningful public participation, with key decisions on privatization and monetary policy made by technocratic elites without parliamentary debate or civil society consultation (Ayele Gelan, 2020; Almariam, 2019). This top-down approach mirrors the EPRDF's authoritarian tendencies while lacking its ideological coherence, resulting in a reform agenda that is neoliberal in substance but cloaked in "Medemer" rhetoric (Zinabu Samaro, 2019).

The EPRDF maintained greater policy autonomy through its party-state apparatus and endowment enterprises (EFFORT, METEC), which served as buffers against external pressure

(Berhanu Abegaz, 2013). However, its ethnic federalist system ultimately conflicted with centralized developmentalism, contributing to the regime's collapse (Eyob Balcha, 2024). The PP, while claiming to transcend ideological rigidities, has embraced market fundamentalism without the EPRDF's compensatory mechanisms. Crucially, both regimes failed Agupusi's (2012) test of genuine local ownership through participatory policymaking, demonstrating how "homegrown" narratives often serve as legitimizing devices rather than accurate reflections of policy origins.

Chapter 7: Conclusion

The political economy of development in Ethiopia presents a rich and complex narrative shaped by successive regimes that have each pursued modernization through distinct, often contrasting, policy frameworks. In conducting this comparative analysis of the EPRDF and post-EPRDF (Prosperity Party) regimes, it becomes clear that while both share an overarching aspiration to transform Ethiopia's economic and social structures, they diverge substantially in ideology, developmental approaches, governance styles, and institutional arrangements.

The EPRDF era (1991–2018) was characterized by the adoption of a developmental state model that sought to emulate the experiences of East Asian nations such as South Korea and China. This approach rested on the active and interventionist role of the state as both a planner and implementer of development strategies. Under this regime, the state assumed control over the "commanding heights" of the economy, implementing long-term industrialization strategies centered on state-owned enterprises, infrastructure development, and agriculture-led growth through its Agricultural Development-Led Industrialization (ADLI) policy. Heavy investments were made in infrastructure such as roads, energy, and telecommunications, with the objective of creating the basic conditions for sustained economic transformation. The state's strategic guidance of private sector activity, through careful planning and control of critical industries, exemplified its commitment to state-led development.

However, the EPRDF's developmental state model was not without significant limitations. While impressive rates of economic growth were recorded—averaging around 10% annually for much of the 2000s—this growth was accompanied by persistent challenges. Foremost among these were increasing inequalities, growing discontent over ethnic federalism, restricted political space, and human rights violations. The regime's centralized governance structure, dominated by a few powerful elites—particularly the Tigray People's Liberation Front (TPLF)—undermined political pluralism and exacerbated grievances among marginalized groups. Over time, the state's rigid control and failure to adequately address demands for political participation and equitable distribution of development benefits sowed the seeds of political instability, culminating in mass protests and ultimately leading to the demise of the EPRDF.

In contrast, the rise of the Prosperity Party (PP) following the 2018 political transition marked a significant departure from the EPRDF's developmental orthodoxy. The PP introduced a more liberalized political and economic agenda, combining market liberalization with almost little state involvement other than the areas that are not reached by the private sector. Privatization of state-owned enterprises, promotion of foreign direct investment, and liberalization of key sectors such as finance and telecommunications became central policy objectives. Unlike the EPRDF's model, where the state played a dominant role, the PP's approach reflects a recalibration towards a market-oriented model that leans more toward neoliberal principles.

The PP's reform agenda aligns with the broader global shift observed in the Washington Consensus era, where state intervention is subordinated to market mechanisms. However, this shift has exposed Ethiopia to new vulnerabilities. The ambitious economic liberalization has proceeded against the backdrop of heightened political uncertainty, ethnic conflict, and institutional fragility. Unlike the EPRDF, which prioritized political stability as a prerequisite for economic growth, the PP's reform agenda has often coincided with internal conflicts that threaten both national unity and economic sustainability. This underscores a critical lesson that liberalization in fragile political contexts requires careful sequencing and robust institutional frameworks to mitigate risks associated with market-driven reforms.

Despite their differences, both the EPRDF and PP regimes exhibit certain continuities in their pursuit of development. Both have maintained an enduring developmental narrative anchored in the vision of transforming Ethiopia into a middle-income country. Both regimes have also sought to position Ethiopia as a manufacturing hub within the Horn of Africa, leveraging its demographic dividend and labor cost advantages. Moreover, both governments have emphasized the importance of maintaining macroeconomic stability as a foundation for growth, even though their approaches to achieving it have varied.

Nevertheless, across both regimes, persistent challenges have constrained the realization of Ethiopia's development ambitions. These include weak institutional capacities, limited rule of law, poor governance, and unresolved tensions around the federal arrangement and ethnic identity politics. The federalist structure introduced by the EPRDF, ostensibly designed to accommodate Ethiopia's diverse ethnic groups, has, in practice, fostered competing claims for

autonomy, resource control, and political representation. The PP's attempt to centralize authority while preserving aspects of federalism has yet to produce a stable political settlement, contributing instead to recurring cycles of political unrest and conflict.

The comparative analysis highlights several key insights for Ethiopia's ongoing developmental trajectory. It reveals that while state-led development, as demonstrated during the EPRDF period, holds the potential to drive rapid economic growth, its sustainability is contingent upon inclusive governance, accountable institutions and meaningful political participation. Development without democratization tends to foster grievances that can destabilize even impressive economic gains. Conversely, the liberal economic reforms championed by the Prosperity Party (PP), while promising for attracting investment and stimulating competition, face their own prerequisites for success. Their effectiveness hinges on the existence of robust regulatory institutions capable of managing liberalization processes, safeguarding national interests, and ensuring equitable outcomes. In a context of weak institutional frameworks, premature liberalization risks exacerbating inequalities, fueling rent-seeking behavior, and deepening social tensions.

The Ethiopian case underscores the inadequacy of one-size-fits-all development models. Neither the East Asian developmental state model, as applied by the EPRDF, nor the market liberalization approach pursued by the PP can guarantee success in isolation. Ethiopia's unique historical, cultural, and political circumstances necessitate a hybrid, context-sensitive approach that draws selectively from multiple development paradigms. This may include a strong developmental state capable of providing public goods and guiding strategic sectors, a vibrant private sector that fosters innovation and productivity, and inclusive political institutions that accommodate diversity and manage conflicts constructively.

Ultimately, the experiences of both regimes affirm that development is not merely a technical or economic project, but fundamentally a political process. The allocation of resources, the management of diversity, and the negotiation of power relations are all decisive in shaping developmental outcomes. Therefore, sustainable development in Ethiopia requires not only sound economic policies but also a comprehensive political settlement that addresses

longstanding grievances, ensures equitable resource distribution, and forges a shared vision for the country's future.

From this analysis, several imperative lessons emerge to guide the path forward. First and foremost, sustainable transformation requires strong, independent, and transparent institutions that uphold the rule of law and ensure accountability. Without this foundational pillar, both state-led and market-driven models are vulnerable to elite capture and rent-seeking corruption, making institutional strengthening a non-negotiable cornerstone of any development strategy. Equally crucial is the pursuit of an inclusive political settlement. The recurrent instability that has undermined successive regimes stems from the absence of a shared national vision, making genuine dialogue among political actors, ethnic communities, and civil society essential to rebuild trust, manage diversity, and establish a durable peace as the bedrock for development.

Pragmatism must guide the economic model, synthesizing the strengths of both state intervention and market forces. The state should maintain a strategic role in sectors like infrastructure, agriculture, and industrialization, while simultaneously creating an enabling environment for a competitive private sector to drive job creation and innovation. This balance must be dynamic, evolving in response to changing economic realities. Furthermore, any economic liberalization must be pursued gradually and sequentially, buttressed by strong regulatory institutions and social safeguards to prevent widening inequality and market failures, as such a hasty approach to opening up to market forces could deepen vulnerabilities.

Strengthening the federal system through cooperative governance is another vital lesson. Federalism should be reframed from a zero-sum contest between centralization and autonomy into a functional framework for equitable resource sharing, clear delineation of intergovernmental responsibilities, and effective conflict resolution—all serving to foster national unity while respecting diversity. Finally, sustained investment in human capital through education, healthcare, and skills training is indispensable to ensure that economic growth translates into broad-based social advancement. Encouraging evidence-based policymaking through collaboration between government, academia, and research institutions will further ground national strategies in Ethiopia's unique realities, moving beyond reliance on imported models.

In conclusion, Ethiopia's developmental journey offers a nuanced illustration of the promises and pitfalls inherent in alternative political economy approaches to development. The experience from the EPRDF regime illustrates that economic growth alone is an insufficient metric for success. Economic growth, while essential, cannot substitute for inclusive governance and institutional resilience. The Prosperity Party period marks a significant ideological departure from the EPRDF's developmental state model, replacing state-led industrialization with an accelerated liberalization agenda that prioritizes private capital, privatization, and market mechanisms. However, these reforms have unfolded amid heightened political fragmentation, violent conflict, and institutional fragility, which has undermined the coherence and effectiveness of the liberalization project. As a result, the PP's economic reform trajectory remains uncertain and internally contradictory.

Ethiopia is therefore situated in a transitional political-economy phase rather than a consolidated paradigm. The key determinant of developmental outcomes under the PP is not the ideological content of economic policy, but the capacity of the state to secure a stable political settlement, rebuild institutional legitimacy, and mitigate conflict. Without such foundations, liberalization risks entrenching oligarchic rent-seeking rather than fostering competitive markets. Therefore, though the PP regime has shifted Ethiopia toward market-oriented development rhetorically and programmatically, the success of this trajectory remains contingent on broader political stabilization and institutional strengthening. Sustainable and equitable development that trickles down to all citizens requires a balanced synthesis of state leadership, market dynamism, institutional integrity, and democratic governance. It is through such a comprehensive and context-sensitive approach that Ethiopia can finally realize its long-held development aspirations.

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