NEVA MAKGETLA: What SA can learn from Ethiopia's industrial success

The dynamism of the east African country's clothing industry is compelling and something to emulate if we are serious about inclusive growth

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Men working in a traditional Dorze weaving house in Hayzo village in Ethiopia's Omo Valley. Picture: 123RF/ILIA TORLIN

In recent years Ethiopia has emerged as the only sub-Saharan country on the classic manufacturing track, with huge new industrial parks mostly serving clothing exporters.

It's tempting to say the rest of Africa should just copy them. But other African countries are already littered with half-empty industrial sites that provide little in the way of economic development or jobs. SA's own special economic zones have enticed a range of projects, but their growth does not approach Ethiopia's.

SA still exports six times as much clothing as Ethiopia in dollar terms. But Ethiopia has developed its industry from virtually nothing. In the past 20 years SA's exports doubled, but its share in global garment exports dropped from 0.12% to 0.10%, with essentially no growth in employment numbers. Meanwhile, Ethiopia's share in global exports rose from none to 0.2% and its clothing employment is nearing 100,000.

More important than Ethiopia's policies were its economic history and location. Above all, it never depended on mining. That left it poorer historically, but made it easier to develop new industries today.

Various factors make it hard for mining economies to diversify. Most obviously, mining exports need world-class infrastructure — but it often can't support manufacturing without re-engineering. SA has dedicated bulk lines and port facilities for ores and coal, but they can't take containers. The electricity system was designed to supply bulk energy to mines and refineries; it has proven less adept at delivering quality, affordable power to municipal sites for manufacturers.

More fundamentally, in most mining-dependent economies there are precious few world-class businesses outside of mining and related industries. If mining stops being profitable, the leading companies almost invariably look to opportunities elsewhere rather than taking on the risk of developing new industries. Moreover, the financial system was set up to serve large mining ventures, not to provide venture capital for other sectors or to support small businesses.

Across Africa, governments have tried to leverage mining rights to get big investors to support infrastructure and industry. Typically, the resulting investments fall far short of the original promises. In Ethiopia, in contrast, there are no mining behemoths to leverage. Instead, the new industrial parks pursue mostly Asian clothing companies that supply retail chains and brands in the global North.

Labour market dynamics in mining economies also don't work well for manufacturing. When commodity prices are high the local currency tends to strengthen — which increases wages in international terms without much improving living standards. When metal and energy prices hit historic peaks between 2002 and 2011, the strong rand lifted the median wage for SA workers to about $400 a month. In contrast, plunging commodity markets from 2011 pushed down the rand, and median wages fell to $250 a month. That is competitive with East Asia.

Large-scale, modern mining also usually pays well by local standards. In SA in 2016, the median pay in mining was R8,500 a month, in clothing it was R2,600.

In Ethiopia, in contrast, workers follow a path also seen in 19th century Europe and 1980s China. Young women leave the farm to work for three or four years in clothing factories, then get better jobs such as secretarial work, or go home. Because they don't see the clothing factory as their long-term fate, they can live with low pay.

Finally, Ethiopia has peculiar advantages, especially its proximity to the Middle East and South Asia. Regional investors move there because it's close and lets them set up spacious, orderly industrial estates. And Ethiopia has easy access to US markets through the the US African Growth and Opportunity Act.

The dynamism of the Ethiopian clothing industry is compelling. But it arises from its specific circumstances; other countries can't just copy it. If we are serious about inclusive growth we need to be realistic about our own advantages and strengths, while doing more to manage the blockages arising from SA's undoubted successes in the mining value chain.

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