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WHAT CAN ETHIOPIA LEARN FROM THE EAST ASIAN COUNTRIES? A CASE STUDY

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ABSTRACT

This is a case study of the East Asian Countries which include the Four East Asian Tiger (South Korea, Taiwan, Singapore and Hong Kong) and the Newly Industrializing Asian Countries of Indonesia, Malaysia and Thailand. These countries were deprived of the required natural resources and were even not in a position to sustain their population with the basic necessities. But currently not a single developing country compares with them in achieving sustained rapid growth and reducing poverty or raising the standard of living of their citizens. The Ethiopian Economy with abundant natural resources is still unable to feed its population. The right public policies and commitments towards their effective implementation by the government explain the difference in economic growth between Ethiopia and the Asian Economies in this study.

KEY WORDS: *High performing Asian Economies, Development Economics, Public Policy, Ethiopia*

I. INTRODUCTION

It is well understood fact that Ethiopia is one of the least developed countries of the world and this is the result of the absence of the right public policies or the under -implementation of the ones that exist. The country's per capita income of $590 is substantially lower than the regional average (Gross National Income, Atlas Method). (The World Bank, 2016).

Ethiopia is a sub-Saharan African country located in the horn of Africa, bordered to the north and northeast by Eritrea, to the west by Sudan and South Sudan, to the east by Djibouti and Somalia and to the south by Kenya (Wikipedia, 2016). The latitude and longitude coordinate of the country is 8° 00 N and 38° 00 E. The country is known to be the biggest landlocked country in the world. With its total population of nearly 100 million, the country is the most populous landlocked nation in the World and also the second most populous country on the African continent after Nigeria. It covers a total area of 1,126,829 square Kilometers (the world's 27^{th} largest country) and the capital and the largest city of the country is Addis Ababa. With its population size of about 100 million, the estimated population growth rate of Ethiopia is 2.88% per year. (www.indexmundi.com, 2016).

We have chosen the East Asian countries as an economic success story to learn from for the country, Ethiopia. This is based on the following facts;

It was only recently that (1960s up to 1990s) that these countries have registered impressive and remarkable economic growth. Up to this time of departure, Ethiopia's economy was almost similar with these countries. The miracle of some East Asian Economies since the early sixties has become the folklore of development economics. These countries have grown fast, undertaken deep economic, social and technological changes while most developing countries couldn't fulfill the promises of the sixties and seventies. That means, these countries were in similar economic condition until recently and they are more preferable to learn from.

Moreover, there is a popular interest on the "Asian Economic Miracle" and there was a growing attention among the academicians and development policy communities to know the relationship between public policies – which most authors have argued to have some common threads among the eight East Asian countries- and the rapid economic growth that they achieved. (The World Bank, 1993).

Development, however, cannot be copied from elsewhere. It is the end result of peculiar social conditions and is only achieved by altering such conditions. That is the reason why they argue that getting experience is not only obtaining information on the final product or model but also the understanding of the social process that resulted in some peculiar strategies and peculiar results gained as a result.

II.OBJECTIVES

The objective of this paper is to obtain some lessons for the Ethiopian policy makers by assessing the success stories of the high performing Asian economies' achievements and its causes. Specifically, the paper discusses what some of these countries have done during their tough economic times and what Ethiopian can learn from this is addressed.

III.METHODOLOGY

As a comparative case analysis, we will present the success stories of the high performing Asian Economies success and reasons side by side with the review of the public policy of the Ethiopia government. Based on this, we will provide policy recommendations that we think are solutions for the economic problems of the country.

IV.RESULTS AND DISCUSSION

The High performing Asian Countries' Success and its possible causes

Achievements:

Poverty Reduction and rapid economic growth:- Based on a generalization made by Fernand Braudel, as quoted in (Wade, 1990), on the Western European countries "It is always serious when the l00-hours-for one-quintal line is crossed; to cross the 200 is a danger signal; 300 is famine". Labor hours required for earning one quintal of rice is the measure of hardship and poverty in a country. This figure has fallen from about 65 to 40 for France from 1900 to 1920. For Taiwan, the figure remained in the range of 150 to 200 during the 1950s and early 1960s; but by 1970 it has fallen to 70 to 120 and by 1980, even further to 40 to 70 which was the same to that of France during the 1900 to 1920. This implies that it took Taiwan only a single generation to transform the material conditions of life even for the unskilled. (Quibria, 2002)

According to (The World Bank, 1993), starting from the 1960s, the high performing Asian Economies (HPAEs) have shown a rapid economic growth which is more than twice the rest of East Asia, almost three times as fast as Latin America and South Asia, and five times faster than Sub-Saharan Africa. Their performance was also greater than that of the industrial economies and the oil-rich Middle

East-North Africa region. Real Income per capita has risen more than four times in Japan and The Four Asian Tigers and grew more than double in the Southeast Asian Newly Industrializing economies in only twenty five years from 1960 to 1985. Life expectancy increased from 56 years in 1960 to 71 years in 1990. Proportion of people living in absolute poverty devoid of such basic necessities like; clean water, food and shelter, declined from 58 percent in 1960 to 17 percent in 1990 in Indonesia, from 37 percent to less than 5 percent in Malaysia during same period. (The World Bank, 1993).

High speed growth:- (Wade, 1990) also compares the speed of growth of the Taiwan Economy to that of Great Britain and Italy to come to the conclusion that Taiwan's economy in terms of average income will be equal to these countries by the end of the 20^{th} century. The time it took the East Asian Countries particularly the Newly Industrializing Economies(NIEs) such as Hong Kong, China, Singapore, Taipe(China) and the Republic of Korea for their socioeconomic development was only one generation while it took centuries for the advanced economies of Western Europe to do the same. Japan's growth rate from the mid-1950s to the early 1970s was between 9-10 percent. This high growth rate coupled with the sharp appreciation of the Yen relative to U.S. Dollar resulted in Japan's per capita GDP surpassing that of the United States in the late 1980s. (The World Bank, 1998).

Over the 1980s, Japan's growth slowed to 4 percent while the four tigers' growth continued at around 7 percent. But, the European Economic Community (EEC) and America were growing at only 3 percent. This resulted in changes in the ranking of the world countries. Accordingly, between 1962 and 1986, Taiwan jumped from 85th to 38th in per capita GNP while Korea jumped from 99th to 44th by surpassing such other newly industrialized countries (NICS) like Mexico and Brazil. Hong Kong and Singapore had surpassed the other two longtime ago with per capita incomes two-and-a- half times Taiwan's in 1962 and twice as high today. (Wade, 1990).

More Manufacturing sector:- despite being very tiny in their relative shares of the world population and income, the four tigers contribution in the world's manufactured products exports is remarkable; almost 8 percent of the international markets compared to Mexico's 0.4 percent in spite of the location advantage that the latter has with the world's biggest market. They contribute more than half of the developing country manufactured exports to the world market. Each of the four tigers, with the exception of Singapore, excels the whole of Latina America in the production of manufactured exports. Even all countries of the world included, Taiwan ranks tenth and Korea ranks thirteenth largest exporters of manufactures. The two country's consumption of copper, an essential industrial component, is 5.4 percent of the world more than Brazil and Mexico combined. They are even starting to produce integrated circuits, which is a building block of the new electronics technology. Their share was 2.3 percent in 1987 and growing very fast while Brazil and Mexico are insignificant in this matter. Some of Taiwan's achievements according to (Wade, 1990) include an increase in real earnings in manufacturing by 15 percent a year between 1960
and 1980.

Increased literacy:- the achievement in East Asian Countries is multifaceted. For instance, Taiwan together with Hong Kong showed a very remarkable progress in both life expectancy and literacy when compared to other case in a sample of one hundred developing countries according to Sen (1981) as cited in (Wade, 1990). As of 1982, life expectancy at birth was seventy five years for women while it was seventy years for men. When we see literacy also, nearly all primary school aged children went to school, out of which nearly all of them passed to junior high school and 80 percent the graduates from junior high school passed to higher education schools.

Possible causes for the achievements:

In the East Asian miracle countries, it does not matter whether the government was a political autocrat or not. Under any circumstance, they provided an economic frame work that guaranteed economic freedoms and pro-market structural institutions required for the economy to flourish. Without these frame work, the miracles would have been impossible to happen. Having this in mind let us see some specific public policy interventions in these countries that resulted in the rapid economic growth (Note that: these policies may not be common to all the East Asian countries but at least they were used in some):

Fundamental development policy:- , according to (The World Bank, 1993), having the fundamental development policy was the basic input in the process of achieving a speedy growth in these countries. The underlying macro economy was stable enough for the private investment to flourish. Financial policies which were meant to increase the integrity of the banking system and to make it more accessible to non-traditional savers boosted the levels of financial savings. Their education policies focused on primary and secondary schools which helped them in generating rapidly growing labor force skills. Their agricultural policies focused on productivity and hardly taxed the rural economy. Their prices were kept within the reasonable bounds and were open to foreign ideas and technology.

Less restrictions:- international as well as national socio-economic and political conditions today are not the same as that during the time of the heydays of the East Asian Miracle countries. The East Asian Miracles have enjoyed the absence of some or all of the following restrictions during their heydays (By the way, these restrictions are one of the challenges for the LDCs today): WTO restrictions on international trade, prohibition of the export subsidies, labor market regulations, lengthy democratic procedures in the process of consulting, adopting and executing policies, etc.

Getting the basics right:- (The World Bank, 1993) these include higher private domestic investment and highly growing human capital, rapid fall in the population growth rates, effective public administration and high levels of domestic finance. The pattern of change in population growth in the East Asian countries is that there was a subsequent f*all in population growth rate. I*n these countries, population growth has dropped significantly from 3.5 percent in 1953-62, to 2.9 percent in 1963-72 to 1.9 percent in 1973-82. As of 1986, it has dropped even further to 1.2 percent. It was through their conducive institutional frameworks that the East Asian countries formed a "level playing field"- which in turn helped in achieving high investment, production over diversion, and efficient use of investible resources. Even agriculture with the falling relative importance has been growing rapidly with improvements in productivity.

Free Trade Regime for Exports (Taiwan):- importing raw materials to be used in export production was highly encouraged. For instance, in the mid-1970s only about half of the total customs duties were being collected, the rest being exempted, refunded, or deferred. Moreover, there are cases in which export productions did not pay tariffs and other charges if only they can explain the interest in industrial deepening rather than export growth. Thus, we can reach on consensus the first condition for a free trade regime for exports was largely met. Taiwan had the smallest difference between the official exchange rate and the hypothetical free trade exchange rate among the six countries compared by Bela Balassa. Thus implies that the second condition for the free trade regime is also fulfilled.

Free Labor Market (Taiwan):- labor market was almost the same to that of text book models of competitive labor market. Three kinds of indicators can be used to show this; there are no institutions in between the suppliers and the buyers (no labor unions and strikes are illegal), there was low level of unemployment since the end of "labor surplus" in 1968-70(the labor market has cleared), and the share of labor in total manufacturing costs has been roughly constant over the period from 1960s to the early 1980s.

High Interest Rates (Taiwan):- it was 6 percent between 1955 and 1980 with the exception of high inflation years of 1973-74 and 1979-80 when it became negative. This high interest rate policy was a reaction to the hyperinflation of 1946-50 when prices rose by thousands of percent.

Conservative Government Budgeting (Taiwan) and fiscal discipline:- there was budget surplus in Taiwan as a result of its being conservative. On the revenue side, the budget surplus has resulted from the achievement of the whole development policy, which made tax revenues to rise rapidly. There was also tightening in tax collections in the 1960s, especially on professionals and public employees. Public enterprise prices are set at levels so that these are net contributors to the budget. On the expenditure side, the surpluses resulted due to the neglect of infrastructure investment until the 1970s which happened because of the good infrastructure left behind by the Japanese on their departure in 1945.

Over the quarter century, the fiscal and current account deficits in developing East Asia have been less than half the average of other developing countries. Besides, East Asia has managed to keep inflation in single digit. The other important feature of East Asia's macroeconomic commitment was that whenever macroeconomic control lapsed, it was quickly re-established. When, for example, in South Korea inflation rate hovered near 20% in late 1970s because of the costly move to build heavy and chemical industry (HCI), the government decided to cut fiscal spending. In Indonesia, the fiscal deficit was greater than 4% of GDP in 1986 as a result of fall in oil prices. The government sharply cut the budget and as a result reduced the deficit to a manageable 1.3% of GDP by 1989. In Malaysia, a continuous fiscal deficit reached unhealthy proportions in the early 1980s which required large reductions. (International Monetary Fund, 1994).

A comparative study by Harrold, Jayawickrama, and Bhattasali(1996) as presented in (The World Bank, 1998) between Indonesia and Nigeria indicated that Indonesia handled the problem of the Dutch disease by using restrictive fiscal policy and prudent monetary policy intervention. Another comparative study by the same authors between Malaysia and Cotedivore indicated that the stagnation in economic growth in Cotedivore in the 1980s was due to fiscal indiscipline and a rigid exchange rate system. Malaysia also made use of taxes and subsidies in order to encourage investments and exports.

Stable Real Effective Exchange Rate (Taiwan):- the real exchange rate has been significantly stable over the whole period of 1956 to 1985 which means that the value of domestic currency has been kept stable in relation to the value of the currencies of principal trading partners. This gave the investors some confidence as they do not have to hedge against exchange rate fluctuations. Not only this, the stable effective exchange rate reflects the fact that Taiwan had low inflation rate compared with that of its main trading partners, the United States and Japan. This is also true for other East Asian countries like Indonesia, Malaysia and Thailand. Indonesia, for instance, made early adjustments to its exchange rate in response to oil price changes (the devaluation of 1983 and 1986). This helped the country in avoiding an inevitable foreign exchange crisis. Nigeria, however, was too late to adjust to the changes up until the foreign exchange crisis itself forced the devaluation by the time the oil boom was clearly over. (The World Bank, 1998). Malaysia has also taken necessary measures for the appreciation of its real exchange rate in the early 1980s which caused a temporary setback at the time. Thailand has also successfully maintained a stable exchange rate policy though gradually depreciated its currency against the dollar by about 15 percent in the late 1980s. Ghana and Tanzania, however, faced large fluctuations in their exchange rates. Their currencies appreciated by more than 100 percent during the first half of the 1980s just to fall back to less than 10 percent of their peak levels in the second half of the 1980s.

High Savings (Taiwan) and high investments:- there was a dramatic increase in savings from about 5 percent of national income in the first half of the 1950s to over 30 percent in the late 1970s. By 1975 Taiwan has surpassed Japan in the ratio of net savings to net national product (25.3 percent against 22.7 percent). Starting from that time onwards, Taiwan has had the highest savings ratio in the world. Its highest 30.5 percent average between 1970 and 1979 may be compared to Korea's 17.5, Japan's 26.3, the Philippines 18.1, and the United States 7.6 percent. This is according to Sun and Liang, 1982: 404 as cited in (Wade, 1990). This huge mass saving has saved Taiwan from high inflation and foreign borrowing and made the rapid economic growth a success. This makes Taiwan different from other developing countries like Korea. Several features of social security, education, and housing help to explain the high level of household savings in Taiwan. Even though we have the same situation in Korea, amount of saving is low in the latter. Scitovisky says the difference is the cumulative result of several differences: faster growth of Taiwan's GNP, rapidly increasing share of the labor force getting some of its income from bonuses, for the sake of starting new businesses, for the sake of expanding the existing small businesses, greater real interest rates on deposits and greater willingness to keep real savings within the country. Besides; there was a tax exemption on interest on time deposits, there was no direct control on whether to use savings for house purchase or not though owning more than one house was discouraged, there was also a dense network of banking which may have helped in increasing financial savings.

There was a sharp increase in investment as a share of GDP in East Asia over the past quarter century and the return was also impressive. In South Korea, for example, rates of return to investments exceeded that of the worldwide average. The then better performance in investment was a proof of the validity of past investment decisions and performances. This was a kind of virtuous circle. Not only this, but there was also an above average implementation and also the presence of strong institutions. These all resulted in total factor productivity growth, which in turn was the reason for the success of most East Asian countries. Total factor productivity growth averaged three to six times that of the developing country average. (International Monetary Fund, 1994).

Another comparative study among Thailand, Ghana and Tanzania indicated that the Thailand economy was conducive for a private investment to flourish. In Ghana and Tanzania, however, private investment was actively discouraged even if it was not directly prohibited. Besides, Thailand had Strong banks which were the back bones of the increase in investment. (The World Bank, 1998).

Well-Trained Labor Supply (Taiwan):- in Taiwan the first six years schooling has been free and compulsory since before 1950 and the enrollment always exceeded 95 percent of the relevant age group after 1956. The three more years of junior high school were made free since 1968 and the enrollment reached 80 percent of the relevant age group in 1980. The tertiary ratio, however, was much lower: 14 percent for men and 12 percent for women in 1985 according to OGBAS (1986) as cited in (Wade, 1990). At the senior high school level and beyond both vocational and academic institutions exist in Taiwan. And since 1966 the government of Taiwan has been encouraging the expansion of vocational while limiting the expansion of the academic institutions in order to meet the rising demand for the technically trained middle level man power in business. The number of students in vocational senior high school has exceeded the number in academic ones in 1971 as an exceptional state of affairs compared to other Asian countries according to Lew (1978) as cited in (Wade, 1990).

Focus Education on Engineering and Science Fields (Taiwan):- there was a special emphasis, in Taiwan, on engineering. Engineers were enjoying a 20 percent more salary as compared to graduates of arts of the same age, on average, and 11 percent more than law graduates according to National Youth Commission (1983) as cited in (Wade, 1990). The tradition of engineer supremacy is not a recent phenomenon. Starting from early twentieth century engineers in china were given respect and recognition. Out of all the Chinese students studying in the United States during the first half of the twentieth century, almost 30 percent took engineering as their main field of study. The fact that Taiwan had large stock of engineers has helped to secure national control over technology imports and to acquire mastery over those technologies. Taiwan's workers work hard be it for the reason of incentives or socialization. Even Taiwan's workers are the third in terms of labor efficiency measured by the time required to manufacture specific products only after Japan and Hong Kong and higher than the United States.

Competitive Industrial Structure (Taiwan):- the other most significant factor for Taiwan's rapid economic growth relates to its business firms which are flexible, had low overheads and with no monopoly power. At the center of Taiwan's manufacturing revolution are not the huge conglomerates like Japan and Korea but the small family firms. It implies that we have so many small family firms in Taiwan, as the saying goes "Better the head of a chicken than the tail of an ox". This proverb explains the cultural propensity to be one's own boss rather than work as a subordinate or member of a team. Taiwan does not have large firms, indeed. In 1981's Fortune 500 biggest firms outside the United States, Taiwan had only two while Korea had ten firms. Over 80 percent of firms had fewer than 20 employees in Taiwan. Taiwan's business groups are much smaller in terms of sales and employment than their Korean and Japanese counterparts. All graduates will not become heads of chickens, however, as a survey (1984) on graduates after two years of their graduation indicated that only 6 percent had gone into their own or family businesses; and out of Masters and PhD graduates only 1.6 percent according to The national Youth Commission (1987) as cited in (Wade, 1990). Small and medium sized firms contribute a lot towards Taiwan's exports; in 1985 for instance, small and medium sized firms' share of manufactured exports was 65 percent. Over the 1980s there was a radical transformation in most of these small scale firms towards large and complicated industries characterized with high technology sectors such as computers, integrated circuit design, machine tools, high quality sports goods, and expensive toys, where product differentiation and performance matter more and price matter a little less. Taiwan's big firms are crucial indirect exporters in their role as input suppliers of petrochemicals, textiles, steel, and the like to the smaller direct exporting firms. Big firms also supply credits, give technical assistance, and trained personnel. Thus, there is a strong interconnection between Taiwan's dualistic industrial structures.

Factor Accumulation:- studies conducted by various economists have indicated that some of East Asia's remarkable success was due primarily to factor accumulation. For example, Singapore (1970s & '80s), invested heavily on capital stock than did Hong Kong but resulted with similar output growth and comparable or lower returns to capital. Further study by using trans-log production function, taking care of changes in labor quality, also indicated that the output growth in Singapore is explained totally by factor accumulation. Extension of the study to Korea and Taiwan resulted in a conclusion that the dramatic rise in factor inputs explains most output growth, leaving little for total factor productivity growth. (The World Bank, 1998). From this perspective, we can say that there is nothing Miraculous concerning the successful rapid economic growth; it is mainly due to heavy accumulation of physical and human capital.

Geographical Proximity and Cultural Similarity:- the other important factor that helped the East Asian countries in achieving their miracle besides high investments, high savings and export promotion is the geographical proximity and cultural similarity among them.

4.1 The Ethiopian Context

We have tried to see the high performing Asian countries' economies. In the following section we will try to analyze the Ethiopian economy focusing on the challenges towards the economic development process of the country. We have tried to categorize our analysis in to the following broad sections and focus our analysis on these:

1.Starting new businesses in Ethiopia: one of the major reasons for the success of the Taiwan's economy, at least during the early 1970s was the role small businesses played. They had the proverb which says "Better the head of a chicken than a tail of an ox" which has an implication that it is preferred to be one's own boss than become subordinate to some big employer. When we analyze whether Ethiopia is good for establishing new businesses we find the following major challenges. According to (The World Bank, 2016) the ranking of the country is as discussed below:

Ethiopia ranks 176th out of 189 countries in 2016 in terms of starting new business. Ethiopia is only better than 13 countries of the world. This is an indication that it is not easy to start business in Ethiopia. This is actually the result of the following criteria necessary to start a new business like the number of procedures (11 in Ethiopia), the time required (19 days in Ethiopia), the minimum capital required (138.9% of per capita income), among others. All in all, starting small businesses which are very necessary conditions for the emergence of big manufacturing sector is very difficult in Ethiopia. This is one of the reasons for poverty of the country.

In terms of other criteria required for starting new businesses also the indicators are very poor for Ethiopia, vis a vis; dealing with the required construction permits 73rd, getting electricity 129th, registering your property 141st.The cumulative result of all these poor performances gives the country the ranking of 146th out of 189 countries of the world in terms of ease of doing business in the country.(The World Bank, 2016)

2.Property Rights: whether there is legal system that protects the properties of the individuals or investors is also a determining factor for further growth of the businesses. But, in this context also, the Ethiopian Economy lags behind the rest of the world and this makes it attract less domestic as well as foreign investors.

The country ranks 78th of 122 countries with respect to the private and intellectual property protection (www.bloomberg.com, 2012). This implies that private properties and intellectual creations are not protected as such in the country. This will obviously discourage owning businesses and it also kills the creativity with in the country. On the other hand it is not easy to register your property either, 112th of 185 countries (www3.weforum.org, 2013). The care that a country has for its domestic businesses is also one measure for the effort of that government to help the domestic enterprises grow. On the other hand, the country's average tariff for the year 2010 was 17.3 % while tariff among the COMESA member countries was 10% (www.ustr.gov, 2012). This is a clear indication of the fact that the country is not open to the rest of the world and also not actively integrated with the regional blocks.

3.Openness: if used appropriately being open is very significant for a country's economic development. Countries like India, china and the East Asian Countries have seen much progress after they reformed their policies in such a way that they became more open than they were before 1990s for India and 1970s for East Asian Countries. The fact that there is strict border control is evident from very frequent smuggling which has resulted from very high tariff rates. Foreign trade impact is also one measure of openness. It has such indicators as shown in the table like trade as percentage of GDP for which Ethiopia registers only 7.9%, WTO membership for which Ethiopia is not a member, membership in regional blocks for which Ethiopia is not fully participating and ease of importing which is not easy in Ethiopia due to high tariff rates (17.3%) and lengthy import permits and large documents required (www.ustr.gov, 2012).

4. Fiscal discipline: the fiscal discipline of a country and the good governance of the country are other very crucial factors affecting the economic development of the country. As one indicator of the fiscal discipline of Ethiopia, government owned enterprises and their expenses are used. Accordingly, subsidies and other transfers as percentage of government expenses is 63.7 % (http://www.2merkato.com, 2012). This is a very large share and it negatively affects the performance of the private enterprises. Not only this, there are also obstacles on the establishment and survival of the private enterprises in the country. The obstacle is that the private enterprises are expected to pay 33.3% of their profits as taxes. (ibid).

Another indicator of the discipline of the government is the share of the government debt out of the share of GDP. The internal and external debts, as of 2012 percentage of GDP, were 45.5% and 10% respectively (CIA, 2016). Having large government debt by itself is not a problem. The question is for what purposes was the debt used in the country should be basic. In Ethiopia's case the debt was not used for building infrastructures in the country.

The fiscal discipline of a country can also be measured by the perception of the international community towards the honesty and predictability of the Ethiopian government. From this perspective Ethiopian government is one of the countries perceived as the most corrupt and unpredictable government. By the criteria of honesty and predictability of the government the rank of Ethiopian government is 108th out of 176 countries as measured by (Transparency International, 2016).

5. The financial Sector: in Ethiopia, the central bank called the National Bank of Ethiopia (NBE) is not independent in its decision making from the influence of the political party in power (http://www.bloomberg.com, 2013). The country boasts of being a free market economy while the party in power is interfering with the market operations of the financial system. The comparative analysis of the Commercial Banks in Ethiopia with other countries shows the poor performance of the former (www.indexmundi.com, 2013).

6.Education: in terms of education, Ethiopia is not good in the eyes of the world countries. Over all education, 115th; internet access, 108th; gender gap, 114th; primary education, 69th; secondary education, 83rd each out of the 122 countries of the world compared (www3.weforum.org, 2013).

7.Transport and communication: transportation is one of the basic infrastructures which are necessary for the economic development of that country. In terms of the quality of domestic transportation, Ethiopia ranks 93rd of 122 countries (Teka & Azeze, 2002). Communication system is also necessary for a country's economic prosperity. They are the causes of development and also the manifestations of the same. More and sophisticated communication means the economy is developed. Number of mobile users per 100 people, is one form of communication for which Ethiopia ranks 122nd out of 122 countries. All countries are better than Ethiopia in terms of the number of mobile owners per 100 people. The number of internet users per 100 people out of 122 countries, Ethiopia is the last. It does not mean there are no mobile owners and internet users in the country, but the number compared to the rest of the world makes it the last. Besides, it takes a person 30Km on average to go to the nearest phone on foot (www3.weforum.org, 2013).

4.2 CONCLUSION

The East Asian countries' public policies were formulated in such a way that they encouraged the operations of the free market and the private enterprises. There were fewer restrictions on the economy and there was free trade regime for exports and imports, there was high initial educational attainment and more attention on the Engineering and science fields, there were dynamic agricultural and competitive industrial sectors, there were well trained labor supply and large capital accumulation (made possible by the high savings) and the governments were stable and conservative on budgeting which helped them in controlling their domestic as well as international borrowings and inflation as well. Moreover, the East Asian Countries have benefitted from the geographical proximity and cultural as well as religious similarity amongst themselves. These countries are similar amongst themselves implies that the countries are very much homogenous within themselves. This is a great contributor towards the stability of the governments politically and also the commitment of the ruling parties arises from this homogeneity.

4.3 SUGGESTIONS

Based on the case analysis in this section of the paper, we forward the following policy recommendations for the Ethiopian government;

The government should get the fundamentals right & set the social and political stability:- we believe that the Ethiopian Economy is in its early stage of development and in this stage the most important policy recommendation is to get the fundamentals right and to secure the social and political stability of the country. Specifically, government should intervene in such a way that it enhances the market mechanism. There are lots of economic restrictions in the country in the domestic market as well as international market. These restrictions should only be there to the extent that they bring the macroeconomic stability and control inflation. Governments should not necessarily follow an interventionist policy but they should at least foster a market-friendly environment. Getting macroeconomic fundamentals right- vis-a-vis., low inflation, low budget deficit, and few distortionary taxes- is crucial. Tax and other regulations in businesses should also be transparent. (The World Bank, 1998)

The government should actively participate in the national as well as international institutions:- international as well as national socio-economic and political conditions today are not the same as that during the time of the heydays of the East Asian Miracle countries. Ethiopia cannot under take whatever she wants these days as those days of East Asian Miracles in the international market due to the restrictions by the World Trade Organization which tightened multilateral rules on subsidies and related industrial policies for the developing countries. Subsidies on Exports are largely prohibited and trade related investment measures that discriminate against imports have been outlawed. Therefore, the Ethiopian government should act in such a way that it gains large benefits from the regional as well as international relations given these contemporary constraints. The government should finalize the process of becoming the member of WTO and also actively participate in the regional blocks.

The government should be committed to efficient and effective democracy:- during their rapid economic growth and even up to now some countries in East Asia are autocracies. The literature presented in this study argues that this fact has helped the economic growth process. We are not recommending the Ethiopian government to be authoritarian, but we strongly recommend that the government should reduce the very long procedures of domestic as well as international businesses, the government should be committed to fighting corruption and unfair allocation of resources, the government should strengthen the emphasis on producing more engineering and science graduates, the government should make the agriculture sector mechanized and make the industrial sector competitive.

The case of bureaucracy and governance is also crucial in deciding whether to have larger or smaller government intervention in African countries. The reason why industrial policy was a success in Japan, Korea and Taiwan was because these countries had competent bureaucrats and sound governance. In case these are absent, which is true for African countries, it is recommended to have less involvement by the governments. This may increase growth in Africa.

The government should apply the concept of the flying geese hypothesis:- literatures reviewed showed that the High performing Asian Economies have benefitted from the flying geese hypothesis both on the sectors in the domestic economy and within the countries in the region. Therefore, the Ethiopian government should also give priority to the sectors and regions ready to take off and then make the other sectors and regions follow. It is natural to support the potentially growing sector and region to grow more. According to the flying geese hypothesis, all fly together forward and higher following the leader. In this regard, the country should also actively participate in the regional economic blocks taking its appropriate position in the region. This also implies more openness to the rest of the world reducing the restrictions and inviting foreign investors.

The flying geese hypothesis, in which one sector leads the other, is also very important for the industrial development. Neighborhood effect, some countries leading the others in some particular sector and leaving that for the neighbor as it jumps to some other sector based on comparative advantage. Peer pressure, if country A grows why not us, sharing demands or markets and also technology transfer can explain this neighborhood effect. Thus, it is crucial that the leader in the region initiate the growth process.

There should be focus on Engineering and Science fields :- the advantage that Ethiopia has this time compared to the times of High performing Asian countries, may come from the advancement in information and communication technology. Because, it has the potential of integrating world labor markets more smoothly and more rapidly than was thought possible in the past. This obviously widens the possibilities for poor countries, like Ethiopia, to achieve economic growth and reduce poverty rapidly. Common to all East Asian countries was an excellent education system and their special emphasis on the Engineering and Science fields. The Ethiopian education system is currently in line with this, 70/30 which means 70% engineering and science and 30% Social science fields, though late it is right policy and should continue with this giving more emphasis on quality.

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