

**Oliver Reimer**

# Seizing Power through Development. The EPRD's Quest for a Developmental Coalition

A Political Settlement Analysis for post-1991 Ethiopia

**Master's Thesis**

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**Bibliographic information published by the German National Library:**

The German National Library lists this publication in the National Bibliography; detailed bibliographic data are available on the Internet at <http://dnb.dnb.de> .

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**Imprint:**

Copyright © 2020 GRIN Verlag  
ISBN: 9783346323347

**This book at GRIN:**

<https://www.grin.com/document/962543>

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# SEIZING POWER THROUGH DEVELOPMENT: THE EPRDF'S QUEST FOR A DEVELOPMENTAL COALITION

A Political Settlement Analysis for post-1991 Ethiopia

Oliver Reimer

MA International Relations/  
Peace- and Conflict Studies

16<sup>th</sup> September 2019

Human History May not be a History of Class Struggle Alone but it is Certainly  
not a History of Negotiated Institutional Change (Khan 1995, 82).

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## List of Abbreviations of Political Organisations

ANDM	Amhara National Democratic Movement
CUD	Coalition for Unity and Democracy
EPDM	Ethiopian People's Democratic Movement
EPLF	Eritrean People's Liberation Front
EPRDF	Ethiopian People's revolutionary Democratic Front
EPRP	Ethiopian People's Revolutionary Party
OLF	Oromo Liberation Front
ONLF	Ogaden National Liberation Front
OPDO	Oromo Peoples' Democratic Organization
SEPC	Southern Ethiopian People's Coalition
TPLF	Tigray People's Liberation Front
UEDF	United Ethiopian Democratic Forces

## List of Abbreviations

ADLI	Agricultural Development Led Industrialisation
CBE	Commercial Bank of Ethiopia
CC	Central Committee
DBE	Development Bank of Ethiopia
EAL	Ethiopian Airlines
EC	Executive Committee
EFFORT	Endowment Fund for the Rehabilitation of Tigray
EHDA	Ethiopian Horticulture Development Agency
EHPEA	Ethiopian Horticulture Producers and Exporters Association
ELIA	Ethiopian Leathers Industry Association
ENDF	Ethiopian National Defence Forces
EU	European Union
FDI	Foreign Direct Investment
FDRE	Federal Democratic Republic of Ethiopia
GDP	Gross Domestic Product
GERD	Grand Ethiopian Renaissance Dam
GNI	Gross National Income
GoE	Government of Ethiopia
GTP I	Growth and Transformation Plan I
GTP II	Growth and Transformation Plan II
HPR	House of People's Representatives
IDF	Industrial Development Fund
IFI	International Financial Institutions
ISI	Import-Substituting Industrialisation
IMF	International Monetary Fund
LAO	Limited Access Order
LIDI	Leather Industry Development Institute
METEC	Metal and Engineering Corporation
MITI	Ministry of International Trade and Industry (Japan)

MEDaC	Ministry for Economic Development and Cooperation (Ethiopia)
MoFED	Ministry of Finance and Economic Development (Ethiopia)
NAFC	National Foreign Assessment Center (CIA)
NBE	National Bank of Ethiopia
NECC	National Export Coordination Committee
NIE	New Institutional Economics
NPE	New Political Economy
OAo	Open Access Orders
PBS	Protecting Social Services
PDO	People's Democratic Organisation
PoW	Prisoners of War
PS	Political Settlement
REST	Relief Society of Tigray
RS	Regional State
TFP	Total Factor Productivity
TGoE	Transitional Government of Ethiopia
TIRET	Endowment Fund for the Rehabilitation of Amhara
SAP	Structural Adjustment Programme
SOE	State-Owned Enterprise
SNNPRS	Southern Nations Nationalities and Peoples' Regional State
UN	United Nations
USD	United States Dollar
WB	World Bank

# 1 Introduction

## 1.1 Opening the Discussion: Conceptualising the Link Between Capitalism and its Institutions

A contemporary critique of the global political economy must not be caught in a liberal perspective on the origins of economic development. Liberal theorists, amongst others, have perceived rapid economic development to be contingent on the support by the legal-institutional structure which characterises capitalist societies in the Global North. The central pillars of this structure are legally protected private *property rights*, the *rule of law* and a *state monopoly on violence*. Liberal strands of development theory have attributed the failure of many societies in the Global South to catch up with Northern levels of welfare to the absence or insufficiency of these institutions. In the most recent decades this perspective has been promulgated most prominently by the New Institutional Economics (NIE). Its analysis, which found its way into policy under the catchword of *good governance*, claims that the takeoff of capitalism in the Global South is impeded by high levels of corruption, legal insecurity and the capture of state institutions by vested interests.<sup>1</sup>

Scholars who stand in the tradition of Marxism and Keynesianism have been disputing this causality for its supposed disregard of the socio-historical conditions which evoked the entrenchment of capitalist interests in societies of the Global North.<sup>2</sup> Marx had highlighted that the transition to capitalism – and indeed all forms of economic growth, redistribute economic surplus unequally between different social forces. He therefore claimed that the entrenchment of capitalist modes of production was an outcome of social power struggles, in which the dominant group enforced its interests on less powerful groups. Institutions functioned to consolidate, materialise and perpetuate this relation of power. Abandoning the teleology of Marx<sup>3</sup>, some post-Marxist scholars have adapted this perspective on institutions; they claim that institutions are an outcome of power struggles and thus reflect historical distributions of power rather than to be a means to transform the distribution of power in itself.<sup>4</sup>

NIE generally claims the opposite direction of causality. Although it agrees that institutions reflect the interests of the powerful of a society, it expects that, once established, the effect of institutions on power is stronger than that of power on

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<sup>1</sup> Acemoğlu and Robinson 2012; North et. al. 2009. For perspectives on Africa see: Bates 1981, Van de Valle 2001.

<sup>2</sup> Elsenhans 2011; Khan 1995; Khan 2018.

<sup>3</sup> Marx claimed that capitalists had introduced capitalist institutions at the inception of capitalism, which would mean that they would have been able to fully apprehend their macro-economic and sociological effects beforehand. In post-Marxism, Brenner (1977) has advocated the notion that such a knowledge would be unlikely. Instead, mid-term interests drove the adaption of institutions, which however had the unintended long-term consequence to consolidate the capitalist mode of production.

<sup>4</sup> Brenner 1977.

institutions. This is because institutions give rise to a system of beliefs and attitudes in a society, which stabilises and perpetuates them. Inasmuch institutions work to consolidate power configurations in society, which locks them into specific path dependencies. In consequence, policies developed on the basis of NIE theory, like good governance, have adopted a fundamentally different approach to foster the growth of capitalist sectors than those who disagree with the liberal depiction of the history of capitalism. Good governance policies took institutions of the Global North as best-practice examples and valuable resources to inform institutional reforms in the Global South. They tried to adapt Southern institutions in such a way that they would converge stronger with the performance of their Northern counterparts and open up institutional avenues to challenge current configurations of power. Good governance policies seek to promote social organisations which are autonomous from the state and able to confront their governments with opposing beliefs and interests. State institutions were reformed and opened up to civil society, so to remove them from the exclusive grip of ruling elites. Efficiency was to be enhanced by anti-corruption measures and introduction of corporate management techniques. However, the results could not keep up with the expectations. Often institutions regressed to previous performance levels or had different effects than intended.<sup>5</sup>

Mustaq Khan (2010) and other critics of the good governance approach have again arrived at Marx, when they explained this failure with the absence of the necessary social forces to sustain the altered institutions. They argued that performance was below expectations because enforcement of institutions can be costly if the rules laid out by an institution conflict with powerful interests in society. If this raises enforcement costs to such a level that they cannot be carried by economically weak states, then any enforcement requires alternative sources of payment to enhance levels of compliance. In this case it is very likely that the sources of such payment will have their own impact on the character of the institution. To assess the exact value of this impact requires to study the social organisations which participate in the production of a particular institution. This would imply to desert the one-size-fits-all approaches of good governance and take expected violations of institutionally provided rules into account. Critics have argued that such approaches would promote non-democratic forms of governance and would be unwarranted by cross-country studies on institutional indicators.<sup>6</sup> Khan (2006) has shown that such studies omit the historical evolution of institutions and that the link between good governance institutions and economic performance disappears if evidence of historical performances of institutions

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<sup>5</sup> See: Sundaram & Anis 2013.

<sup>6</sup> See: Van de Walle 2016.

is included into the regression. Far from rejecting the efficiency of democracy per se, Khan (2010) argues that science has to acknowledge that the indigenous adaptations made to transplanted Northern institutions effectively change the character of these institutions to differ significantly from the blueprints. A pragmatic approach would then have to take these adaptations into consideration when designing development policy. This, however, would require a departure from the Northern-conceived blueprints, regardless of their normative value. Institutional reform would have to be re-oriented towards facilitating growth instead of replicating institutional ideal-types, ill-suited for the social configurations in the places of application.

Although the causality between capitalism and capitalist institutions is disputed, the effectiveness of Northern institutions to co-ordinate the large and plural societies in the Global North is not. Critics of the liberal version of the history of capitalism do agree with liberalists that these institutions have developed over the past 200 years to provide the most efficient and legitimate means of governance, including: the formalisation and increasing access to the judicial system; the establishment of democratic systems and widening of suffrage; and the creation of redistributive institutions, like taxes or social security schemes, which significantly lowered domestic inequality compared to the pre-capitalist era.<sup>7</sup> Furthermore, they seem to be the most feasible way to overcome *collective action* and *co-ordination problems* and thereby help to improve living standards. While contemporary critics of capitalism argue that a solution to the inequality of welfare between North and South would require the abolishment of global capitalism or at least its confinement by strong regulative and redistributive institutions; there is little evidence that this would garner the support of governments from wealthy countries, most of which rest their power on the consent of those constituencies which would loose most from such a redistribution. A more feasible, yet still challenging, avenue to bring global welfare levels in balance would be via the accumulation of political and economic power by Southern states themselves. Thus, while over the long term an arrival of Southern institutions at the levels of capacity and efficiency of their Northern counterparts seems indispensable, the most sustainable way to achieve this goal remains highly controversial between liberal and heterodox theorists in political economy. This thesis will therefore aim to enrich this debate by delivering an empirical basis to the contested claims of political scientists and shed a light on the role of agency of Southern states in the competitive global world order.

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<sup>7</sup> North 1995, 20-22.

## 1.2 The Structure of this Thesis: the Political Settlement Theory of Mustaq Khan and the Case of Ethiopia

This thesis seeks to contribute to this debate by probing the theory of institutional evolution provided by Mustaq Khan (2010). For Khan, the performance of a country's institutions is intrinsically linked to the social order of a society, which he terms the *political settlement*. Accordingly, it is the distribution of power within a society which provides the best explanation for the likelihood for a particular institutional adaption to become effective. Because institutions distribute benefits and costs on different social groups unevenly, he expects to find different institutions to be enforced to different degrees, depending on the relative power and interests of social forces and the ability of the promoters of change to find informal institutions which can enforce changes despite opposition. This interaction between different social forces is expected to explain variations of institutional performance, which then translate to sectoral and temporal variations of growth patterns. To test this hypothesis, this thesis is conducting an in-depth analysis of the links between political power, institutional evolution and economic growth in Ethiopia since the fall of the Derg regime in 1991.

The case of Ethiopia offers several benefits for testing Khan's hypothesis. It offers multiple within-case observations since Ethiopia's federal system provides for a spacial variation of political and economic institutions across the country's regions. Every one is structured by a different distribution of political power and economic endowments, giving rise to a complex network of power relations within and between states, between centre(s) and periphery. The case offers also temporal variation. Several events divide the observation period into distinct periods, accompanied by its unique processes of distributing political and economic power. This is true for the reconstruction of state institutions in the aftermath of the civil war, the war with Eritrea in 1998 and the concomitant adoption of two distinct economic policies, with two different growth episodes.<sup>8</sup> Furthermore, the case offers sectoral variation, both within and between economic sectors. Lastly, the case is less encumbered by three important intervening variables than comparable cases. These variables are: (1) being an Asian country, (2) resource-driven growth, and (3) missing technical expertise at higher state level. On the first point: because most of the fast-growing countries of the more recent past are located in Asia, some scientists have been arguing that 'region specific factors have been at play' (Van de Valle 2001, 166). This would suggest that social orders in Asia are of a complete different sub-set than orders elsewhere in the Global South. Thus, the case of a fast growing country located in Africa provides the opportunity to test this essentialist claim. Second, many

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<sup>8</sup> See appendix 3.

contemporary fast-growing countries in the Global South are primary resource exporters. The high proportion of these countries affected by *dutch disease* and *boom and bust circles* has led some scientists to conceptualise them to be a distinct social order rather than to be functioning under the same logic of social interactions like other societies elsewhere.<sup>9</sup> Ethiopia allows to circumvent the trap of essentialisation also, because it is resource-poor and its exports are *price elastic*, which requires the country to generate economic growth from increases in productivity, instead by increases in external prices. Third, Ethiopian policy makers legitimised their rule by resting it on the scientific discourse of social sciences and economics. Many of them have been studying at Western universities; they have based their policies on theories of development economics; and employed international development experts like Joseph Stiglitz, Dan Rodrik and East Asian state development agencies to design Ethiopian policies.<sup>10</sup> Thus, the probability for policies to have been ineffective due to missing theoretical knowledge was significantly lowered. In turn any policy failures are much more likely to be effects of the political settlement.

Under the proposition that the performance of institutions is intrinsically linked to the social forces of a society, I expect to find formal institutions to be differently enforced and manipulated according to the relative power of a social group in conjunction with other groups and the ruling coalition. Stated differently, I expect to find variations of institutional enforcement and performance, reflecting the distribution of power in society. Furthermore, I expect institutions to change their performance wherever their underlying social formation disintegrates or loses power relative to other groups in society. Together, these different variations of enforcement of institutions will allow to explain different episodes of economic growth in Ethiopia. Adopting my question above to the case I ask:

RQ1: How does the power of the ruling coalition in Ethiopia against the power of all other social forces in society affect institutional performance?

RQ2: Does the variation of institutional performance in Ethiopia explain different episodes of economic growth?

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<sup>9</sup> Bates 1981, Van de Valle 2001.

<sup>10</sup> Ono 2013, 268-298.