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Accelerating Ethiopia's structural transformation and science, technology and innovation: The impact of South-South cooperation

Accelerating Ethiopia's structural transformation and science, technology and innovation: The impact of South-South cooperation¹

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I. Introduction

The present case study examines the journey of Ethiopia towards structural transformation, highlighting the critical role of South-South cooperation in driving this transition. As the second most populous country in Africa, Ethiopia has experienced impressive economic growth, but it still faces challenges in shifting from an agriculture-based economy to a more industrialized and diversified one. Through the lens of South-South cooperation, this case study explores how foreign direct investment (FDI), primarily from developing countries such as China, India, Saudi Arabia

and Türkiye, has supported the structural transformation efforts of Ethiopia, particularly through the development of industrial parks. These parks have become pivotal in creating jobs, enhancing technological innovation and stimulating economic growth. The case study underscores the importance of South-South cooperation in advancing the structural transformation of Ethiopia, focusing on how these partnerships foster technology transfer, capacity-building and economic diversification. It concludes with policy recommendations for further leveraging South-South cooperation to sustain the progress of Ethiopia towards becoming a middle-income country by 2025.

Figure 1. Ethiopia



Source: Office for the Coordination for Human Affairs

II. The essential path of structural transformation for landlocked developing countries

Wealth creation and economic competitiveness are deeply tied to structural economic transformation. Priority 5 of the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014–2024 (VPoA) seeks to accelerate this transformation in landlocked developing countries (LLDCs) by eradicating poverty, boosting productivity, embracing innovation, diversifying economies and positioning LLDCs within global value chains. However, since the adoption of the VPoA, progress has been limited. The contribution of the agriculture sector to gross domestic product (GDP) in LLDCs has declined owing to reduced productivity, and FDI remains concentrated in natural resource extraction, particularly in the mining sector.

From 2014 to 2019, LLDCs experienced above-average global economic growth rates, but the coronavirus disease (COVID-19) pandemic reversed much of that progress, causing a sharp economic decline and pushing many LLDCs into recession. While growth rates were generally higher in LLDCs during the implementation of the VPoA, structural economic transformation remains a significant challenge. For example, in Euro-Asian LLDCs, structural transformation has been hampered by difficulties in transitioning to market economies, particularly in former Soviet republics in Central Asia. Issues with privatization and liberalization reforms have limited industrial capacity and, in some cases, have led to premature deindustrialization. By contrast, some African LLDCs, such as Botswana, Ethiopia and Rwanda, have shown

marked improvements in productive capacities, demonstrating the positive impact of both the VPoA and national policies on structural transformation.²

Many LLDCs, especially those classified as least developed countries (LDCs), face significant structural impediments to sustainable development. These include weak productive and supply capacities, limited advancements in science, technology and innovation, and an overreliance on a narrow range of commodities. As a result, they remain positioned at the lower ends of global value chains. Global crises such as the COVID-19 pandemic, climate change, geopolitical tensions, conflicts and debt distress have further derailed their progress towards structural transformation and the Sustainable Development Goals (SDGs).

The new Programme of Action for LLDCs (2024–2034) stresses the urgent need for structural transformation in LLDCs. This agenda focuses on diversifying economies, promoting industrialization, engaging the private sector, developing modern energy infrastructure and responsibly utilizing critical minerals, actions deemed essential for advancing sustainable, inclusive and resilient development in LLDCs.

A responsible, dynamic private sector is recognized as a key driver of this transformation, capable of supporting sustained, inclusive and equitable economic growth. Achieving this requires policies, regulatory frameworks and

2. United Nations, Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (OHRLLS), Review of South-South cooperation in the implementation of the Vienna Programme of Action for Landlocked Developing Countries in the Decade 2014–2024 (2024).

enabling environments that encourage private-sector participation. Additionally, modern energy infrastructure, particularly cross-border energy connectivity, is vital for enhancing productive capacities and supporting structural transformation. The LLDC rich reserves of critical minerals offer significant potential for economic diversification, industrialization and inclusive growth, though this must be balanced with minimizing the environmental and social impacts of mineral development.

In conclusion, structural transformation – emphasizing economic diversification, value addition, industrialization, and the leveraging of science, technology and innovation – is crucial for LLDCs to overcome their unique challenges, build resilience to future shocks and achieve their development goals.

III. Socioeconomic situation of Ethiopia

As of 2024, Ethiopia, with a population of approximately 129.7 million, is the second most populous country of Africa, following Nigeria. It has one of the fastest-growing economies in the region, with a growth rate of 6.4 per cent in 2021–2022 that is projected to reach 6.7 per cent during 2024–2025.³ This growth builds on a long-term trend, with the economy expanding at nearly 10 per cent annually over the past 15 years, driven by public infrastructure investments, industry and services.

This sustained growth significantly reduced poverty, with the national poverty rate dropping from 23.5 per cent in 2015-2016 to

3. African Development Bank (AfDB), "Ethiopia economic outlook" (2024).

a projected 19 per cent in 2019-2020.⁴ Human development indicators have also improved, including reductions in hunger and progress in health, education and gender equality. The agriculture sector, employing over 70 per cent of the population, has remained robust despite global challenges such as the COVID-19 pandemic. The International Monetary Fund also reports improvements in fiscal management, with the public debt-to-GDP ratio of Ethiopia expected to decrease from 56.1 per cent in 2021 to 34.4 per cent in 2024.⁵

Despite these gains, Ethiopia remains one of the poorest countries in Africa, with a per capita gross national income of just \$1,020.⁶ Inequality has also increased, and the pace of progress remains modest compared to that of other rapidly growing economies. It also faces ongoing challenges such as high inflation, declining government revenue, limited foreign reserves, and internal conflicts that threaten its economic and social progress.

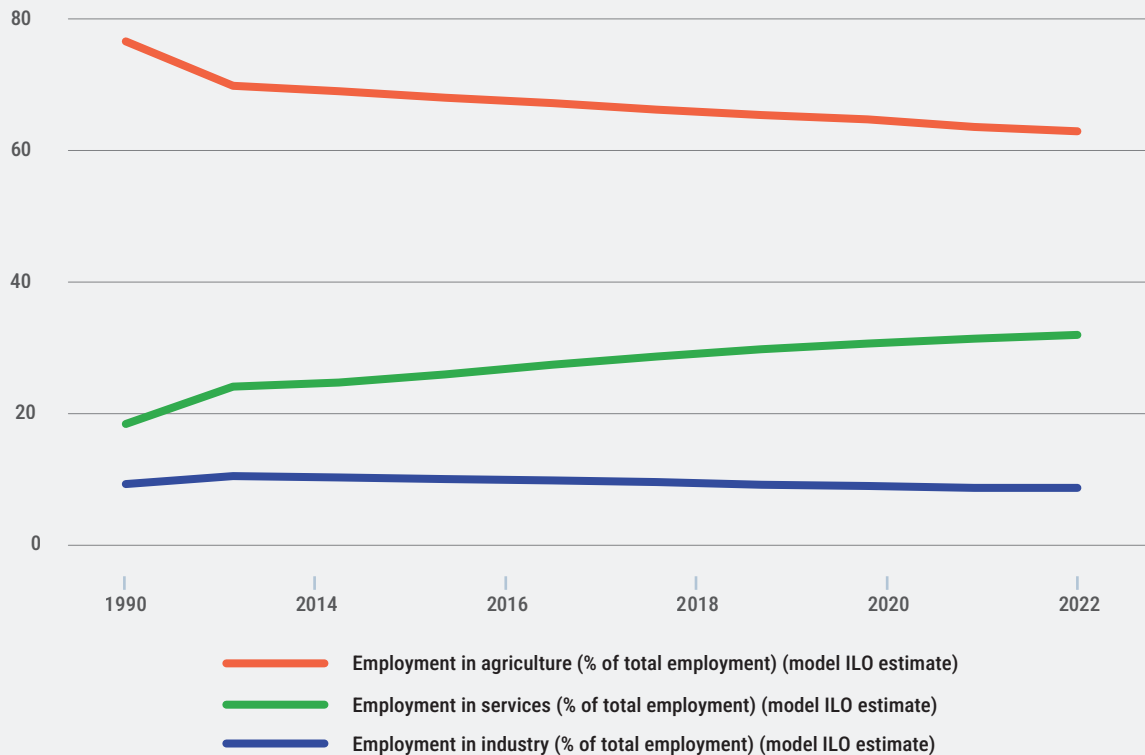
The economic landscape is marked by its efforts to navigate through internal conflicts, global economic pressures and the need for structural reforms. The Government is implementing a 10-Year Development Plan aimed at transitioning to a more private-sector-driven economy, enhancing efficiency and fostering a competitive business environment.⁷

4. Federal Democratic Republic of Ethiopia, Ministry of Planning and Development, [Ethiopia Voluntary National Review 2022, June 2022, p. 15](#).

5. International Monetary Fund (IMF), Country Report, No. 24/253, July 2024, p. 11.

6. World Bank, "The World Bank in Ethiopia" (2024). Available at www.worldbank.org/en/country/ethiopia/overview (accessed on 2 September 2024).

7. Ibid.

Figure 2. Sector employment in Ethiopia

Source: World Bank (2024) Databank: World development indicators.

In summary, the socioeconomic landscape of Ethiopia reflects resilience and growth despite significant challenges. Sustaining economic expansion, managing inflation and pursuing structural reforms are crucial as the country aims to achieve lower-middle-income status by 2025.

IV. Industrial parks of Ethiopia: The structural transformation journey

Ethiopia was a late adopter of industrial parks as part of its industrialization strategy, incorporating them into policy documents in 2013. This approach aimed to attract FDI, create employment and boost foreign

economic and structural reforms, with the Government investing \$1 billion between 2014 and 2020 to establish nine publicly owned industrial parks.⁸ This strategic initiative is designed to generate significant export revenue, create sustainable jobs and accelerate industrial development.

Following the adoption of the policy, Ethiopia saw significant success, “with over 20 industrial parks built between 2015 and 2021”.⁹ That strategy attracted \$740 million in FDI from over 60 international investors, created

8. United Nations Industrial Development Organization (UNIDO), *Industrial Development Report 2024: Turning Challenges into Sustainable Solutions – The New Era of Industrial Policy* (2024), p. 106.

9. Ibid

Box 1. Rwanda's approach to South-South cooperation

Hawassa Industrial Park is one of the premier industrial parks of Ethiopia, having been operational since 2016. It was built on 140 hectares of land, with the potential to expand to 300 hectares. At full capacity, the Park will provide employment to 60,000 workers. It was designed to attract foreign investment, and as a result, over 75 per cent of the 24 companies operating there are foreign owned, with only six domestic firms. Specializing in the textile and garment sector, the Park focuses entirely on export, primarily to the United States of America market through the African Growth and Opportunity Act duty-free initiative. The park has created 34,000 jobs, with over 80 per cent of the workforce being women between 18 and 24 years of age.

Sources: Federal Democratic Republic of Ethiopia, Hawassa Industrial Park (available at www.hawassa.gov.et/en/landmarks/hawassa-industrial-park) and UNIDO, Industrial Development Report 2024.

Box 2. Mekelle Industrial Park

The Mekelle Industrial Park is one of Ethiopia's more promising industrial parks. Conceived in 2012 and financed through a \$1 billion Eurobond, it was officially launched in July 2017 with 15 factory sheds. The park is built on 75 hectares of land with the potential to expand to 1,000 hectares, with the goals of generating foreign exchange, creating jobs, and transferring technology. The well-designed park includes various facilities such as factory sheds, a health clinic, a one-stop shop, customs and banking services. Specializing in textiles and garments for export, the park achieved notable successes prior to the Northern Ethiopia war. Before the conflict, 14 of the 15 sheds were occupied, primarily by foreign investors from China, India, Bangladesh and Türkiye, with one local investor. The park employed nearly 4,500 people from Mekelle and surrounding areas, with around 95 per cent of the workforce being young women aged 18-25. The Mekelle Industrial Park generated over \$10 million annually in exports and was thriving until the onset of the Northern Ethiopia war in November 2020.

Sources: UNDP, "Can Ethiopia become a manufacturing powerhouse?" Working Paper Series, No. 4 (2023).

over 150,000 jobs – mainly for women – and contributed \$500 million to manufactured exports in 2023.¹⁰ The industrial zones of Ethiopia stand as one of the success stories of Africa, rooted in the vision of transforming the country from an agriculture-based economy into a manufacturing hub.

These industrial parks play a crucial role in the industrial strategy of Ethiopia by promoting cluster agglomeration and providing an environment conducive to medium- and large-scale manufacturing. Spread across key locations such as Hawassa, Dire Dawa, Kombolcha, Mekelle, Adama, Bahir Dar and Jimma, there are currently 32 industrial parks in various regions, special zones and city administrations. To enhance their management and efficiency, the Government

has established and strengthened key institutions such as the Ethiopian Investment Board, the Ethiopian Investment Commission and the Industrial Parks Development Corporation. These institutions regulate the industrial parks and work to expand export opportunities for firms operating within them, helping to connect them to international markets. In addition, the Government of Ethiopia has set up special credit facilities to support youth, women and domestic investors engaged in medium-sized enterprises within the industrial parks. The Development Bank of Ethiopia and the Commercial Bank of Ethiopia offer financial support to medium-scale enterprises. Small-scale enterprises are also supported based on local potential, with the Government helping those businesses to form networks to enhance their input supply. Furthermore, small enterprises benefit from value-chain contributions, training, technical capacity-

10. UNDP, "Can Ethiopia become a manufacturing powerhouse?" Working Paper Series, No. 4 (December 2023), p. 1.

building, and market linkages with medium- and large-scale firms while also being encouraged to engage in technology transfer.

The industrial hubs of Ethiopia, particularly Bole Lemi Industrial Park I, have been recognized for their inclusive practices, with women making up the majority of the workforce. This contributes to reducing inequality and promoting social and economic growth. Additionally, these firms align with the Government domestic economic development plan, which emphasizes sourcing raw materials locally and fostering connections between firms and industries within Ethiopia.

Successes

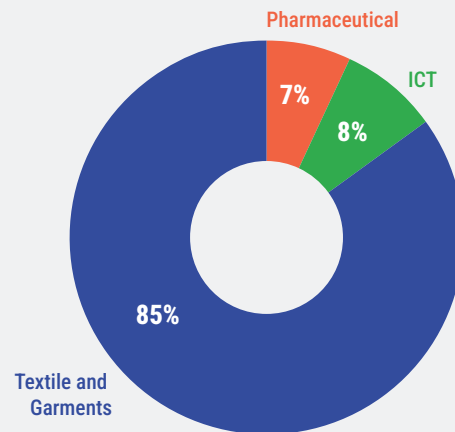
The establishment of industrial parks in Ethiopia has led to notable successes, marking significant strides towards achieving the industrialization goals of the country. Key achievements include:

FDI. These parks have successfully attracted FDI, as indicated earlier, attracting international manufacturers, particularly of textiles and garments, which has been pivotal in integrating Ethiopia into the global supply chain;

employment generation. The creation of over 150,000 jobs, as reported, underscores the role of the industrial parks in providing vital employment opportunities, contributing to poverty reduction and economic stability; and

export growth. The contribution to the manufactured exports of Ethiopia has been significant, helping to diversify the export portfolio of the country and reduce dependence on traditional agricultural exports.

Figure 3. Sector share in Ethiopian Parks



Source: UNDP (2024). The role of industry in the local economy: The case of small and medium enterprises(SMEs) in Ethiopia.

Challenges

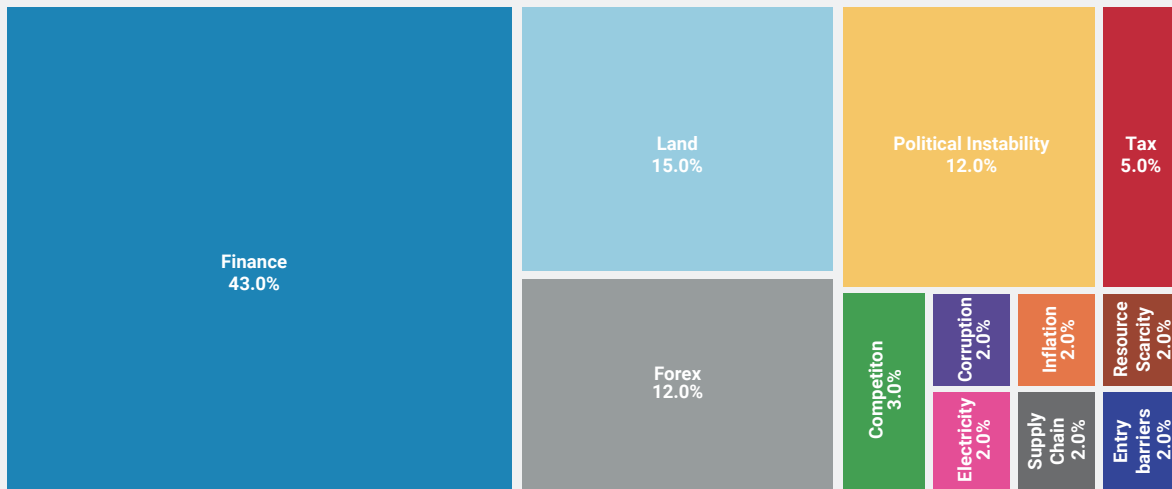
Despite these accomplishments, the industrial parks in Ethiopia face several challenges that could potentially hinder their long-term success and sustainability, including:

insufficient and costly finance. The single top challenge for firms in the industrial parks is access to finance, which is the main challenge preventing them from expanding. This is owing to issues in accessing loans from banks that serve as the primary source of financing;

foreign exchange shortages. Limited access to foreign currency has constrained the ability of firms to import necessary raw materials, thereby impacting production and export capabilities;

regulatory and bureaucratic hurdles. Excessive regulation and bureaucratic inefficiencies have been impediments to operational ease within the parks, affecting the pace at which businesses can scale and adapt;

Figure 4. Top Challenge to Doing Business (percentage)



Source: UNDP (2023) Can Ethiopia Become a Manufacturing Powerhouse? p. 8.

logistical and infrastructure issues. While the industrial parks are designed to offer comprehensive infrastructural support, logistical challenges persist, including issues relating to transportation and utilities, which affect operational efficiency and cost-effectiveness;

security concerns. Recent conflicts and political instability in certain regions have raised concerns about the security and safety of investments, potentially deterring future FDI and complicating operations for existing firms; and

insufficient investment in research and development (R&D). The Ethiopian R&D ecosystem struggles with limited investment, which is crucial for fostering innovation. Investment levels in R&D lag significantly behind the threshold of 1 per cent of GDP recommended by the United Nations Educational, Scientific and Cultural Organization. The disconnection between

research institutions and the industrial sector further impedes the practical application of scientific research, limiting the commercialization of innovations.

To fully unlock the potential of the industrial parks of Ethiopia and address existing challenges, a comprehensive, multifaceted strategy is required. First, enhancing the regulatory framework by simplifying bureaucratic procedures and improving transparency is essential to attracting both domestic and international investors. Streamlining these processes will make the industrial parks more competitive and investor-friendly. Second, continued investment in infrastructure both within the parks and in surrounding areas is vital to overcome logistical challenges and ensure efficient production. This includes improving transportation networks, the energy supply and digital connectivity to support industrial growth. Third, better management of foreign exchange through policies that provide more

reliable access to foreign currency will enable firms to better manage imports and financial planning, ensuring smoother operations. Political and security stability is equally critical for maintaining investor confidence and ensuring that the parks can fulfil their role in driving economic growth.

Strengthening collaboration between the private sector and international partners is key. The business community, alongside international partnerships, plays an essential role in advancing the structural transformation of Ethiopia. Engaging with both local and global companies enables Ethiopian enterprises to tap into international expertise, drive innovation and enhance productivity, thereby boosting employment and fostering economic diversification. Crucial emphasis should be placed on technological learning and innovation. This includes developing entrepreneurial and technological skills, fostering production linkages and strengthening the role of the private sector in the economy. By prioritizing these areas, Ethiopia can enhance its industrial capacity, diversify its economy, and ensure sustained development and prosperity.

The industrial parks of Ethiopia are at a crossroads, embodying both the ambitious economic aspirations of the country and the tangible challenges of rapid industrialization. By addressing these challenges head-on and leveraging the successes to date, Ethiopia can continue on its path towards becoming a manufacturing powerhouse, ensuring that its industrial parks are not just symbols of potential but beacons of sustainable economic progress.

V. Role of South-South cooperation in the structural transformation of Ethiopia

South-South cooperation delivered support to the structural transformation of Ethiopia through different modes including financing and investment, training, study tours, capacity-building programmes, public-private partnerships and joint R&D activities. This cooperation modality has contributed to transforming the economy, creating jobs and eradicating poverty.

This section delves into the dynamics of FDI by developing countries in the industrial parks of Ethiopia, highlighting the substantial international interest that these parks have generated. Specifically, it points out the pivotal role of countries such as China, India, Saudi Arabia and Türkiye in supporting the ambition of Ethiopia to become a manufacturing hub in Africa. Each of these countries has contributed significantly to the development and operational success of the industrial parks of Ethiopia, albeit in different capacities and sectors, amplifying the role of South-South cooperation.

China emerges as a standout investor, with a profound impact on the industrial landscape of Ethiopia. Chinese firms have been instrumental in diversifying the industrial sector of that country, focusing on areas such as textiles, building materials, plastics, metals and engineering. With an estimated \$4 billion investment over two decades, the involvement of China has not only underscored the strategic importance of the industrial parks of Ethiopia but also contributed to job creation, with over 100,000 positions attributed to Chinese investments. This partnership reflects the

broader Belt and Road Initiative of China, aiming to enhance trade routes and investment flows between Asia, Africa and Europe, with Ethiopia being a critical node in this expansive network.

India, Saudi Arabia and Türkiye also play significant roles, each bringing unique strengths and investments to the industrial sector of Ethiopia. These investments range from textiles and apparel and the leveraging of the cotton resources and labour market of Ethiopia to advanced manufacturing and technology transfer, enhancing the industrial capabilities and export potential of Ethiopia.

The collaboration between Ethiopia and these countries through FDI in industrial parks serves multiple objectives. It aims to boost the export-oriented manufacturing sector of Ethiopia, create employment opportunities for its rapidly growing population and stimulate economic growth. Moreover, these partnerships are crucial for technology transfer and skills development, essential components for industrial upgrading and competitiveness on the global stage.

In summary, the support from these countries through FDI in the industrial parks of Ethiopia signifies a vote of confidence in the economic policies of the country and its potential as a future manufacturing powerhouse. However, leveraging this international support effectively requires Ethiopia to address ongoing challenges within its industrial parks and broader economic framework, ensuring that foreign investments translate into sustainable growth and development benefits.

Box 3. China-Ethiopia industrialization and textile exports

The Mekelle Industrial Park is one of Ethiopia's more promising industrial parks. Conceived in 2012 and financed through a \$1 billion Eurobond, it was officially launched in July 2017 with 15 factory sheds. The park is built on 75 hectares of land with the potential to expand to 1,000 hectares, with the goals of generating foreign exchange, creating jobs, and transferring technology. The well-designed park includes various facilities such as factory sheds, a health clinic, a one-stop shop, customs and banking services. Specializing in textiles and garments for export, the park achieved notable successes prior to the Northern Ethiopia war. Before the conflict, 14 of the 15 sheds were occupied, primarily by foreign investors from China, India, Bangladesh and Türkiye, with one local investor. The park employed nearly 4,500 people from Mekelle and surrounding areas, with around 95 per cent of the workforce being young women aged 18-25. The Mekelle Industrial Park generated over \$10 million annually in exports and was thriving until the onset of the Northern Ethiopia war in November 2020.

Sources: United Nations, OHRLLS, Review of South-South cooperation in the implementation of the Vienna Programme of Action for Landlocked Developing Countries in the Decade 2014-2024, p. 23.

A. Contributions of four developing countries to the structural transformation of Ethiopia: China, India, Saudi Arabia and Türkiye

China

The contribution of China to the industrial parks of Ethiopia is a prominent example of South-South cooperation fostering economic development in emerging markets. China has played a pivotal role in the development and expansion of the industrial sector of Ethiopia, particularly through investments in industrial parks. This involvement is part of a broader strategy by China to engage with African countries, offering a mix of investments, trade and infrastructure development.

Chinese companies have been key players in the industrial parks of Ethiopia, providing substantial investment capital that has been crucial for both the establishment and expansion of these parks. Over the past two decades, the investment of China, estimated at \$4 billion, has been instrumental in building the physical and logistical infrastructure of the parks. This includes the construction of factory facilities, roads, utilities and telecommunications networks, creating a conducive environment for manufacturing activities.

These investments have also generated over 100,000 jobs, significantly contributing to local employment opportunities. The roles created range from manufacturing positions in textiles and garments to more specialized roles in engineering and technical services. By facilitating job creation, the involvement of China in the industrial parks has helped to alleviate poverty and has stimulated economic growth in surrounding communities.

The investments of China are not confined to one industry but rather span various sectors, including textiles, garments, building materials, plastics and metals. This sectoral diversification aligns with the broader economic strategy of Ethiopia to reduce its reliance on agriculture, expand its manufacturing base and increase export revenues. Through these diverse investments, Ethiopia has benefited from technology transfer and capacity-building, boosting its industrial competitiveness and innovation capabilities.

Beyond financial investments, the participation of China in the industrial parks of Ethiopia has

supported skills development and technology transfer. Chinese firms have introduced advanced manufacturing technologies and practices, which have contributed to the upskilling of the local workforce. Training programmes and knowledge-exchange initiatives have enabled Ethiopian workers to gain new skills and competencies necessary for modern manufacturing environments.

The contribution of China to the industrial parks of Ethiopia underscores the strategic significance of Ethiopia as a manufacturing and export hub in Africa. By investing in Ethiopia, China not only gains access to a promising market but also establishes a foothold in the region, which is integral to the Belt and Road Initiative goal of creating a global network of trade and investment links.

In conclusion, the extensive involvement of China in the industrial parks of Ethiopia through investment, infrastructure development, job creation, sectoral diversification, technology transfer and capacity-building represents a multifaceted approach to supporting the industrialization efforts of Ethiopia. This partnership exemplifies how South-South cooperation can accelerate economic development, although it also necessitates careful management to ensure mutual benefits and sustainable growth.

While the involvement described above highlights the significant role of China in the industrial parks of Ethiopia, it also acknowledges contributions from India, Saudi Arabia and Türkiye, each country bringing unique strengths and investments to the industrialization efforts of Ethiopia through

South-South cooperation. The following is an elaboration of how these countries have contributed to the parks.

India

As of February 2022, 400 Indian firms operated in Ethiopia with a cumulative investment of about \$5 billion, with \$3 billion to \$4 billion on the ground.¹¹ The involvement of India in the industrial parks of Ethiopia reflects its broader engagement with Africa, focusing on technology, pharmaceutical and textile sectors. Indian companies have invested in manufacturing facilities within these parks, capitalizing on the competitive advantages of Ethiopia, such as low labour costs and access to raw materials. These investments often come with a transfer of technology and expertise, contributing to the development of local industries and workforce skills. The contribution of India also extends to capacity-building, with Indian firms providing training and development programmes for Ethiopian employees. This partnership not only strengthens the Ethiopian manufacturing sector but also fosters closer economic ties between India and Ethiopia, creating a win-win situation for both countries in terms of trade and investment opportunities.

Saudi Arabia

Saudi Arabian investment in Ethiopia spans multiple sectors, including agriculture, manufacturing, mining, education, health, hospitality, real estate and drilling of water

11. ENA, "Total Indian investment in Ethiopia reaches 5 Bln USD, nation favorable for foreign investors". Available at www.ena.et/web/eng/w/en_33771 (accessed on 5 September 2024).

wells. There are currently 124 active projects with a total capital of over 19 billion birr (more than \$335 million), generating over 20,000 permanent jobs.¹²

In the industrial parks of Ethiopia, the focus of Saudi Arabia is primarily on agro-industry and food processing, capitalizing on the agricultural potential of Ethiopia to secure food supplies for Saudi Arabia. Saudi investors are developing integrated agroprocessing zones within these parks to add value to the agricultural products of Ethiopia and boost exports. These investments not only contribute to the goals of Ethiopia to modernize agriculture and diversify exports but also support the food security and economic diversification strategies of Saudi Arabia. Additionally, Saudi investments bring knowledge transfer in agroprocessing technologies, enhancing the efficiency and competitiveness of the Ethiopian agriculture sector.

Türkiye

The economic presence of Türkiye in Ethiopia, particularly in the industrial parks, is centred on investments in textiles, garments and light manufacturing. Türkiye is one of the largest investors in Ethiopia, with \$2.5 billion in capital as of 2020; Turkish companies have been attracted by the strategic location and favourable investment incentives of the country.¹³ These investments have created 30,000 jobs, supporting the economic growth

12. UNDP, "Can Ethiopia become a manufacturing powerhouse", p. 21.

13. Seleshi Tessema, "Mutual growth drives Turkish investment in Ethiopia", Anadolu Agency, 17 January 2020. Available at <https://www.aa.com.tr/en/africa/mutual-growth-drives-turkish-investment-in-ethiopia/1705411> (accessed on 15 May 2024).

and employment goals of Ethiopia. Additionally, Turkish firms have shared valuable manufacturing expertise, helping to improve productivity, capacity and quality standards in Ethiopian factories. This collaboration highlights the expanding role of Türkiye as a key partner in the industrial development of Africa, with Ethiopia benefiting significantly from Turkish investment and trade relations.

In summary, the contributions from China, India, Saudi Arabia and Türkiye to the industrial parks of Ethiopia through the South-South cooperation modality underscore the diversified nature of FDI in the country. Each country brings distinct strengths and focus areas, from technology and pharmaceuticals to textiles and agroprocessing, contributing to the industrial growth and economic development of Ethiopia. These partnerships highlight the importance of South-South cooperation in the structural transformation journey of Ethiopia, offering opportunities for technology transfer, job creation and expansion of exports. As Ethiopia continues to develop its industrial parks, the ongoing engagement with these countries will be crucial for achieving its ambitions of becoming a manufacturing hub in Africa.

B. Impact of South-South cooperation on the structural transformation of Ethiopia

The contributions of China, India, Saudi Arabia and Türkiye to the industrial parks of Ethiopia highlight the transformative potential of South-South cooperation in driving economic development and the structural transformation in LLDCs and LDCs. This collaboration demonstrates how developing

countries can leverage mutual interests and complementary strengths to achieve shared growth objectives through the following:

- **leveraging comparative advantages.** South-South cooperation enables countries to use their unique strengths. The expertise of China in industrial park development, the prowess of India in technology and pharmaceuticals, the focus of Saudi Arabia on agro-industry and food processing, and the leadership of Türkiye in textiles and garments have provided Ethiopia with a diverse range of skills, technologies and investments. This support has been pivotal in building the infrastructure, capacity and export potential of the industrial parks of Ethiopia;
- **diversification and economic integration.** Investments from these countries have contributed to diversifying the Ethiopian industrial base. By attracting industries ranging from textiles and garments to agroprocessing and pharmaceuticals, these partnerships have helped to reduce the reliance of Ethiopia on agriculture and integrate the country into global value chains. This diversification strengthens the economy of Ethiopia and enhances its resilience to external shocks;
- **technology transfer and capacity-building.** A key element of South-South cooperation is technology and knowledge transfer. Chinese firms have introduced advanced manufacturing technologies, Indian companies have shared expertise in pharmaceuticals, Turkish investments have modernized textile manufacturing and Saudi projects have bolstered



agroprocessing capabilities. These contributions are vital for upskilling the workforce of Ethiopia and fostering innovation in its industrial parks; and

- **employment creation and social development.** These collaborations have significantly boosted employment in Ethiopia, a critical need for its young and growing population. Over 150,000 jobs have been created, including 100,000 from Chinese firms alone. This employment growth not only drives economic development but also contributes to social progress and poverty reduction through development of skills and income generation.

In conclusion, South-South cooperation has played a pivotal role in scaling up the industrial parks of Ethiopia, showcasing how developing countries can collaborate to achieve significant economic and social progress. By pooling resources and expertise, countries such as China, India, Saudi Arabia and Türkiye have supported the path of Ethiopia towards industrialization and economic diversification. Looking ahead, a continued focus on sustainability, equitable growth and mutual benefits will be essential for maximizing the potential of South-South cooperation in Ethiopia and beyond.

VI. Conclusions and findings

Integrating South-South cooperation into the structural transformation strategy of Ethiopia provides a promising approach to addressing economic, social and environmental challenges. By leveraging the strengths, experiences and resources of developing countries, Ethiopia can further enhance the sustainability, resilience and inclusivity of its industrial parks, in alignment with its broader goals for structural transformation, sustainable development and poverty reduction.

As Ethiopia, along with other LLDCs, embarks on the new programme of action, South-South cooperation will play a critical role in advancing the acquisition and dissemination of innovative technologies. These technologies, particularly in the areas of green energy, digitalization and environmentally friendly manufacturing, will be vital drivers of structural transformation. Through greater engagement with Southern partners, Ethiopia can tap into cutting-edge technological solutions and expertise, building the capacity needed to participate fully in the global digital economy, foster innovation and capitalize on emerging technological opportunities. This cooperation modality also opens doors to sharing good practices on how to integrate sustainable industrialization with inclusive economic growth.

Central to the efforts of Ethiopia should be key initiatives that prioritize expanding its digital economy and optimizing the application of emerging technologies. Establishing technology-transfer mechanisms, such as technology banks and innovation hubs, can enable the exchange of knowledge, expertise

and skills, fostering homegrown innovation while accelerating progress in vital sectors such as agriculture, healthcare and renewable energy. Public-private partnerships are essential in facilitating these transfers as well as in developing practical applications of technologies that support sustainable growth. Moreover, supportive policies, including investment incentives and regulatory frameworks, will be instrumental in driving the successful adoption and scaling of new technologies.

To further empower its workforce and bridge existing knowledge gaps, Ethiopia must make strategic investments in science, technology, engineering and mathematics (STEM) education, comprehensive capacity-building programmes and technology adoption initiatives. These efforts should be geared towards not only equipping the workforce with the skills required by rapidly evolving industries but also fostering a culture of continuous learning and innovation. A concerted focus on closing the digital divide, particularly by investing in Internet infrastructure, promoting digital skills training and implementing robust e-government solutions, will be critical for enhancing productivity and boosting long-term economic growth. Proactive engagement with artificial intelligence and robotics, guided by ethical frameworks, will also be vital, with collaboration between research institutions and private companies playing a key role.

By integrating technology transfer, innovation hubs and capacity-building efforts into its structural transformation strategies, Ethiopia can ensure a holistic and forward-looking approach to sustainable development. Public-private partnerships and robust policies will further accelerate the adoption of

transformative technologies, propelling Ethiopia and other LLDCs towards deeper economic transformation, enhanced competitiveness and sustainable development.

Furthermore, peace and security are fundamental prerequisites for attracting FDI since they create a stable environment where investors, particularly from the Global South, feel confident in the safety and predictability of their ventures. A secure political and social climate reduces the risks associated with investment, ensuring that businesses can operate without the threat of conflict or instability. By fostering peace, Ethiopia can strengthen investor confidence, encourage long-term commitments and enhance the flow of capital, which is crucial for driving industrial growth and economic transformation.

The structural transformation and sustainable development of Ethiopia also require a coordinated, multi-stakeholder approach deeply anchored in South-South cooperation. Policymakers, development partners and the private sector all play critical roles in shaping the future of the industrialization strategy of the country. By leveraging the experiences and expertise of Southern partners through South-South cooperation, Ethiopia can overcome structural challenges, promote inclusive growth and advance its position in global value chains.

Policymakers should strengthen economic diplomacy with countries of the Global South that have successfully implemented industrial park models, which will be instrumental in securing better terms for

technology transfer, investment and trade agreements. This cooperation will also support the efforts of Ethiopia to harmonize its policies with regional and global partners, improving investment flows, technology exchange and the development of value-added industries.

Maintaining macroeconomic stability, particularly by managing inflation, stabilizing the currency and building foreign exchange reserves, will be critical in creating a more attractive environment for Southern investors. Investments in digital infrastructure within the industrial parks of Ethiopia are also essential for fostering innovation, creating a skilled workforce and aligning the country with the global digital economy. Vocational training and education programmes tailored to the needs of park industries will build a strong foundation for sustained industrial growth.

The **private sector** plays a pivotal role in advancing sustainable livelihoods, skills development and social inclusion through South-South cooperation initiatives. By engaging in these initiatives, the private sector can help to ensure that industrialization benefits local communities and contributes to long-term economic resilience. The private sector should also advocate for industrialization that aligns with South-South cooperation principles and supports the achievement of the SDGs. This includes promoting the adoption of green technologies, ethical labour practices and sustainable supply chains, all of which are essential to creating industries that not only generate jobs but also improve societal well-being.

Through collaborative partnerships, the private sector can also facilitate transfers of knowledge and technology, helping to build local capacities in emerging sectors such as renewable energy, digital transformation and sustainable manufacturing. In this way, the private sector becomes a key driver of innovation, economic diversification and inclusive growth, reinforcing the broader impact of South-South cooperation on sustainable development.

Southern and other development partners and donors must prioritize strengthening the institutional capacity of Ethiopia through targeted knowledge-sharing and technical assistance, especially in managing industrial parks, advancing digital transformation and promoting green industrial practices. This support should be directed towards enhancing the ability of Ethiopia to engage in regional

and global collaborations, pooling resources and expertise across borders to tackle shared challenges. Financial and technical assistance for developing both physical and digital infrastructure around industrial parks will further boost competitiveness, while partnerships that facilitate the transfer of green technologies and digitalization will be key to fostering long-term industrial development.

Finally, sustainability must remain at the forefront of the structural transformation efforts of Ethiopia. Donors and partners should support the commitment of Ethiopia to green industrialization, ensuring that economic growth is environmentally sustainable and socially inclusive, contributing to the global fight against climate change while improving the quality of life for the Ethiopian people.



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Accelerating Ethiopia's structural transformation and science, technology and innovation: The impact of South-South cooperation

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