
Impact of Industrialization on Employment Opportunities in Ethiopia: A Systematic Review and Descriptive Quantitative Analysis

By

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Abstract

Despite persistent growth, unemployment lingers a lasting problem in Ethiopia. This study assesses industrialization's impact on employment in Ethiopia through the lens of structural transformation theory. Because of the absence of long-term time-series data inhibiting econometric methods, the research utilizes a dual methodology approach: a systematic review of both theoretical and empirical literatures and a descriptive quantitative analysis of sources from Google Scholar and Scopus with World Bank datasets that spans the years 1991–2023 to bypass conventional data limitations. Findings indicate that industrialization has failed to bring meaningful structural change, evidenced by low labor absorption in the industrial sector. In its place, labor has transitioned from agriculture in to the service, generating a service led bypass of industrialization stagnated by regulatory and institutional barriers. Therefore, the study commends shifting policy backing to an agro-processing system which is labor heavy to integrate industrial inducements with job creation. Where, the shift is vital for realizing sustainable economic development.

Keywords: Industrialization; Employment creation; Structural transformation; Ethiopia; Quantitative Synthesis

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1. Introduction

According to UNIDO (2020), manufacturing plays the prominent role for a desired employment creation particularly for young workforces; however, many developing countries fight to generate adequate industrial labors. Currently, the service sector is dominating the share of GDP and employment. This shift poses a major challenge for Africa, where rapid population growth demands labor-absorbing development strategies (Rodrik, 2016). Thus, the manufacturing industry is still believed to be the most important source of employment absorption in Africa.

In the region, Ethiopia remarkably witnessed a paradox concerning the industrialization and employment nexus. Starting from the imperial period, agriculture has dominated the economy. Till to the recent time, hurdles like poor infrastructure, energy scarcity notably, electricity, and backward agro industry integration have undermined the industrial sectors (Oljira and Belay, 2019; Gebrehiwot, 2020).

The industrial value addition, recorded 23.9% in 2016 to 4.9% in 2022 (WB, 2024). In the same years, unemployment ascended from 4.5% in 2013 to 8% in 2021 (Geda, 2022). The share of manufacturing has remained only 5% for the 40 consecutive year's growth with no structural transformation (Alemayehu, 2021). Consequently, Ethiopia faces the dual challenge of generating enough jobs for the ever-growing labor force (Sanchez et al., 2021). Assefa and Gebre (2025) and UNDP (2025) stated that contemporary policy initiatives, including the "Made in Ethiopia" strategy, tried to moderately improve the share of industry to the GDP. However, agriculture absorbs 60% of the labor force on the contrary industry absorbs below 7% (AfDB, 2024).

Generally, structural transformation in Ethiopia continues to be incomplete. Currently the agricultural contribution of GDP has found in a decreasing trend but, labor is shifting into the service rather than industry; manufacturing has made a slight contribution to growth and employment. Persistent labor mismatch further aggravates youth unemployment, specifically in urban areas (Yadete et al., 2025). Recent research stated that the industrialization model of Ethiopia remains mostly "job-poor", dwindling to absorb the expanding labor force notwithstanding output growth (Caria et al., 2025).

In the framework of these research, employment opportunities signifies the economy's labor-intake capacity specifically the creation of productive, formal sector positions resulting from structural shifts in production of the generation of formalized labor absorption channels. As envisaged in the conceptual framework desired outcomes, this variable is beyond a simple head count metric of labors but a measure of how effectively industrialization translate into a varied labor requirement for numerous skill levels within the labor force. This definition has been supported by the idea of Sutrisno et al. (2023), who define employment opportunities as a key indicator of the success of development revealing the capacity of industries to integrate the working-age population into the well regulated labor markets.

The primary problematic aspect of Ethiopia's development path rests in the expanding separation between macroeconomic growth and the industrialization led employment integration. In spite of Ethiopia's GDP growth, particularly during the double-digit economic growth period 1991-2018, the economy has failed to convert this growth into a labor-intensive industrial revolution, leading to an incessant unemployment crisis. Along with the downturns in the agricultural sector's composition to GDP, the desired structural transformation cannot be achieved as the shift into a high-productivity industry has been bypassed towards the low-productivity service sector. According to Alemayehu (2021) and World Bank (2024), this service-led bypass is distinguished by a manufacturing share that has been sluggish at about 5% for four decades; nonetheless a severe contraction in the industrial value addition occurred dropping from a

high of 23.9% in 2016 to a minimal 4.9% by 2022.

This deterioration highlights a larger trend where empirical evidence suggests that the labor-absorptive capacity of growth in Ethiopian manufacturing has been deteriorating. The main relevance of industrialization in enhancing employment opportunities rests in its role as an engine for labor migration from the low productivity agrarian sector. Within the framework, Manufacturing Expansion or essentially an industrial up scaling acts as the independent variable that enables the mobility of workers from low-productivity subsistence agriculture toward high-productivity industrial roles.

This shift raises the capacity of the economy for creating employment opportunities, confirming that in every the levels of industrial growth, there is a assessable and substantial increase in formal job creation (Saba and Ngepah, 2022). Similarly supporting this argument, Abid et al. (2024) suggested that industrial growth remains the most unswerving pathway for emerging economies to shift labor out of the informal sector. By updating the production base, industrialization inhibits the labor force from remaining stagnant in low productivity sectors.

As a result of this, the industrial sector at present employs less than 7% of the labor force, putting Ethiopia with a deep labor mismatch, mounting urban youth unemployment, and an industrial model that persists as job-poor (AfDB, 2024; Caria et al., 2025). Concerning the alleviating of this deviation, Abebe et al. (2025) stated that contemporary industrial policy should pivot from pure output targets to labor-linked incentives to address the stagnated sectoral employment.

Against such a gap, this research assesses industrialization's impact on employment generation in Ethiopia, adding a quantitative data synthesis method using data covering years between 1991 to 2023 to supplement the systematic review approaches. The paper contributes to the literature by systematically analyzing the industrialization-employment nexus in Ethiopia, with particular attention to youth employment, and by aligning theoretical perspectives with empirical evidence to inform policy debates in developing countries.

2. Literature Review

2.1. Theoretical framework

2.1.1. Theories of Employment

Neo-classical economists such as and Robert Solow (1956) Paul Romer (1990) developed the idea of employment creation arguing that technological development has been a key determinant. John Maynard Keynes later challenged this classical theory and put forth his own theory. According to Keynes, the deterring factor for the short term employment level is the aggregate demand for goods and services. Keynes made this claim in 1936.

2.1.2. Impact of industrialization on Employment Opportunities: Global and regional trends

According to Rodrik (2016), historically industrialization has been functioned as the primary catalyst for a huge labor acceptance, easing a structural transition that absorbs excess workers from smallholder agriculture into high-productivity manufacturing. As one can borrow an experience from a successful East Asian development models, the manufacturing sector performed as a productive escalator delivering stable entry-level decent-work job opportunities (UNIDO, 2024).

According to AfDB (2024), the lack of labor intensive industrialization is critical particularly for Africa

assumed that the region's labor force is projected to increase by almost 40% by 2030. With the lack of a pivot with regard to labor-intensive sectors such as agro-processing, countries like Ethiopia risk undergoing "premature deindustrialization," where the service sector absorbs labors into low-skill, informal roles, so declining to leverage the "demographic dividend" required for resilient structural transformation (Sanchez et al., 2021).

2.1.3. Structural transformation and the experiences of industrial shift in Ethiopia

The relationship between industrialization and employment generation has been rooted in the structural transformation theory. The theory postulates that economic development is the result of moving of production factors from conventional to modern sectors (Lewis, 1954; Kuznets, 1966). Under this framework, the transition is envisaged to be labor-absorptive; nevertheless, modern theoretical frameworks by Rodrik (2016) contend that various developing nations are practicing deindustrialization at considerable lower status of income than their antecedents, an event that bounds their job-creation capability.

In the Ethiopian situation, "both Geda (2022) and Alemayehu (2021) perceived that the expected forward and backward linkage which has been resulted from 'Agricultural Development Led Industrialization' (ADLI) strategy of the country has been failed to materialize." The major cause to the failure of this strategy is deemed to be supply-side constraints related to shortage of energy and poor infrastructure that deter labor demanding investment (Oljira and Belay, 2019). Recent scholars like Gebrehiwot (2020), suggest a decoupling of growth and jobs. In this regard, he indicates Ethiopia succeeded in expanding industrial parks. However, Sanchez et al. (2021) argue as these enclaves frequently function as "islands" with a restricted integration into the valuable domestic labor market.

Moreover, Yadete et al. (2025) assert a skill mismatch of labor in urban areas and those areas remain a barrier, as the education system creates graduates for which the existing industrial base has no demand. Assefa and Gebre (2025) emphasize for a transition toward labor-heavy agro-processing sector otherwise Ethiopia's industrial sector will remain incapable of absorbing the 60% of labor currently underemployed in the agriculture sector.

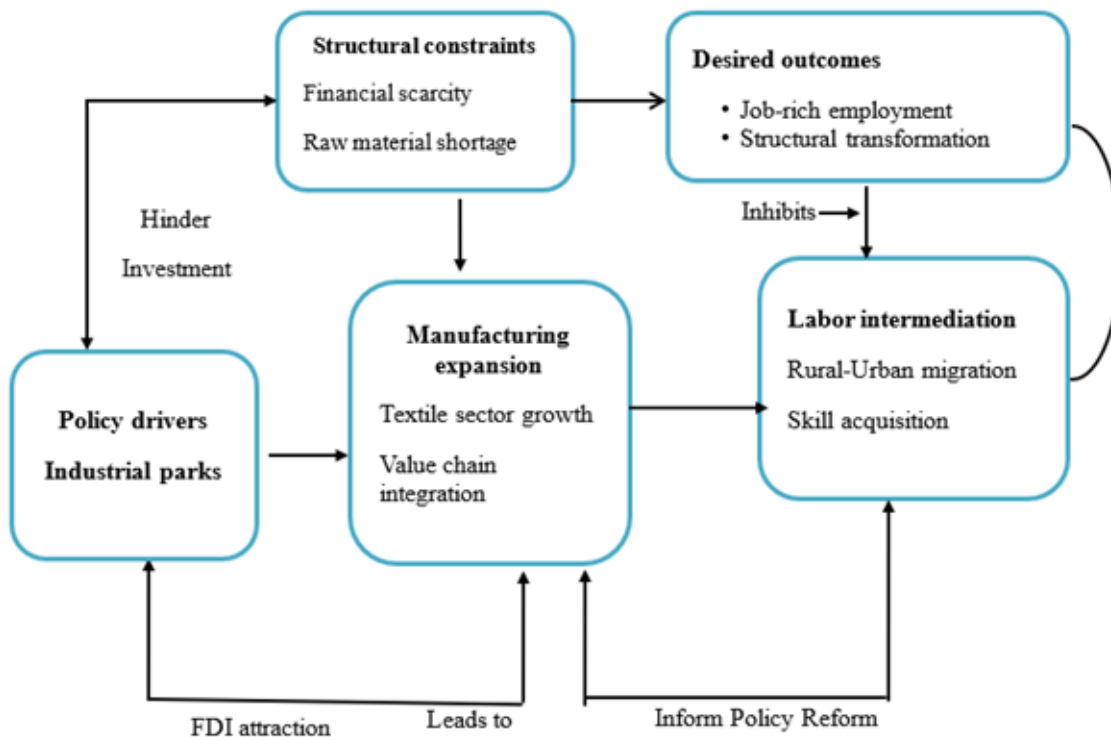


Figure 1: Conceptual framework for industrialization and sustainable employment opportunities

2.2. Empirical Literature

2.2.1. Impact of industrialization on employment opportunities in Ethiopia

Studies confirmed that industrialization in Ethiopia grows steadily. This has been reflected by its minimal, actually 10%, manufacturing and industrial employment, as of the labor power of the country is occupied in agriculture. For escalating the number of labor forces in industries, the rural-to-urban migration remains sluggish in Ethiopia. With the flourishing of urbanization in Ethiopia currently, the number of rural migrants to urban centers is high. However, this labor has been immediately transferred to the low-productivity urban informal jobs (Mesfin & Christina, 2021).

As study conducted by Omolo (2020), there is a significant sectoral difference in employment elasticity. Sectors particularly, manufacturing, mining and the service industries indicates high sensitivity to growth. This showed that production increases in such arenas are basically promoters of employment growth. The share of employment has been occurring showing uneven growth as it has been registering the decline of agriculture from 77.8% in 1991 to 72.7% in 2011 and 62.8% in 2022 which shows drops of 5.1% and 9.9%, respectively. On the contrary, service increased gradually from 15.7% in 1991 to 19.2% in 2011 and 30.7% in 2022. The status of industry witnessed a slightest increase from 6.5% in 1991 to 8.1% in 2011 but fell back to 6.5% in 2022 that instigate queries about the sustainability of job creation.

2.2.2. Analysis of structural change and employment in Ethiopia (1991–2023)

Regarding this, data from WB (2024), indicates that a dramatic decline in the post-2016 period was

registered due to the annual growth rate of industrial value addition, which has been dropping from 23.9% in 2016 to 4.9% which was showing deceleration due to the decreasing capacity to hire the increasing labor force by the sector. Similarly, in spite of fast economic growth as recorded in the country, the manufacturing contribution to GDP has remained low for many decades, fluctuating between 5% and 6% (ILO, 2024).

Moreover, sectoral employment and GDP shares particularly during the years between 1991 and 2022, has been deteriorated. The economy experienced a profound but incomplete structural transformation, described by a substantial reallocation of labor that largely bypassed the industrial sector. The agricultural employment share deteriorated by 15 %, from 77.79% to 62.79%, with largely displaced workers absorbed by services, whose share rose to 30.68% (ILO, 2024). The industry’ recording of an insignificant employment increase of only 0.04 percentage points, reaching just 6.52% (AfDB, 2024). This pattern reflects premature deindustrialization which believed to be one of the causes for the failure of structural transformation in Ethiopia (Rodrik, 2016). Industry registers the maximum value added per employee, causing about 28% of GDP, whereas employing only 6.52% of the labor force (Inklaar et al., 2023). Agriculture, on the contrary, provides 32% of GDP while sharing 62.79% of employment, signifying very low productivity. Services account for the highest share of GDP (40%) together with escalating employment concentration (IMF, 2017).

Overall, three key issues emerge: service-led labor changes, productivity mismatch, and industrial restraints. Consistent with the literature, the industrial sector failed to function as an engine of employment creation, maintaining a minimal employment share despite its relatively high GDP contribution. Industrial job creation failures are also the other characteristics of the failure of the country’s structural transformation.

“The thematic synthesis of empirical literature revealed that there have been persistent structural bottlenecks, an inadequacy described by poor skill mismatch (Kebede & Heshmati, 2023 and Oljira & Belay, 2019)”. Infrastructural deficit has been also still another feature which impeded the economic transformation of Ethiopia. This deficit is taken to be the major bottlenecks distinguished primarily showed by the shortages of electricity, water and sufficient road networks that highly restrained the functional capacity of manufacturing firms (Kabinet Kaba, 2023). Furthermore, a prominent deficits, skill gaps has been also the other deficiency explained in the major mismatch that exists between the skills of the predominantly young, yet inadequately-trained, domestic workforce and the needs of modern industrial parks (Fox and Gandhi, 2021; World Bank, 2022).

Table 1. Characteristics of key influential papers

Ser. No	Author(s) and Year	Methodology	Key investigative findings	Strategic contribution to this Paper
1	Heshmati and Kebede (2023)	Mixed-Methods for evaluating Policy and Political economy	Distinguish institutional and political impediments as a major obstacles to manufacturing efficiency ;notes “policy-implementation gap” in the industrial parks	Accentuates the institutional impediments inhibiting job creation

2	World Bank (2022)	Time series data interpretation and economic modeling	Gives an account the textile/garment export's high job volume through industrial parks ,however, notes sustainability concerns and low GDP effect	Delivers the quantitative standard for industrial park operation
3	Geda, A. (2022)	Macroeconomic assessment	Contends that as a result of failed structural transformation which was required to generate mass employment, Ethiopia's rapid growth is "job poor".	Encounters the "growth-equals-jobs" tales
4	Mesfin and Christina (2021)	Micro-level labor evaluation inquiry	Distinguish a structural mismatch due to shift of the least skilled rural work to the proper industrial role	Clarifies the labor supply-side restraints.
5	Oljira and Belay (2019)	Systematic literature review	Integrates financial shortage and raw material deficiencies main as a supply-chain obstacles to industrial development.	Sorts the working risks to industrial continuity
6	Tafese et al. (2024)	Peer reviewed journal	Utilizes satellite images and family data to show that while IPs increase wage work, they often displace traditional local non-farm enterprises	Delivers a contemporary spatial and socio-economic impact evaluation.
7	Abebe, G. et al. (2025)	Matched Employee-Employer panel data	Explore that skill grading policies primarily lesser salaries , but employees decide this through strategic job-hopping among organizations	Clarifies worker agency and salary dynamics in the Hawassa Industrial Park.
8	Gebreeyesus and Abegaz (2025)	Empirical Structural Analysis (IGC/Peer-reviewed)	Reveals that employment is changing to low-productivity servicer than manufacturing, remaining the industrialization goal incomplete	Describes worker organizations and salary dynamics in the industrial park of Hawasa.
9	Sime et al. (2024)	Econometric Impact Analysis	Revealed that the lack of backward linkages obtaining from local organizations inhibits industrialization from generating indirect jobs	Crucial for discussing the enclave nature of industrial parks of Ethiopia.

3. Methodology

3.1 Study type and scope

The goal of this research is to evaluate Ethiopia's industrialization on employment opportunities from 1991 to 2023 using a dual approach of systematic review and descriptive quantitative analysis. To ensure methodological rigor, this study follows a PRISMA-aligned choosing procedure. The study applies a quality valuation filter to influence the literature based on methodological intensity and citation impact within the resulting effects in the field of economics.

Additionally, the study employs investigative triangulation to cross-reference qualitative structural bottlenecks with quantitative World Bank datasets. The descriptive quantitative analysis explicitly emphasizes the employment strength of industrial growth to explain the separation between production and labor entry. Lastly, a data harmonization approach was used to integrate ILO and WDI into a constant longitudinal structure from 1991 to 2023.

Through the systematic review, the current qualitative and empirical literature was used the delivery of

a protocol-driven investigation, selection, and thematic synthesis. Descriptive quantitative analysis has also served to provide a critical basis for the conclusions derived from the literature through employing time-series data. The period 1991–2023 bounds the scope where the study covers the time that comes when that country took a major shift in terms of its economic policy.

3.2. Search strategy, inclusion, and exclusion criteria

3.2.1. Search strategy

Multiple academic databases were utilized, primarily Google Scholar and Scopus. The primary keyword combination included industrialization, labor market, structural transformation, and job generation, all amalgamated with Ethiopia.

3.2.2. Inclusion and exclusion criteria

While investigating the inclusion and exclusion criteria, we used criteria types such as the source, the focus of the content's language, and the duration of time that the research covers. Based on these, in terms of source type, we include academic peer-reviewed papers, dissertations, and institutional reports from recognized international organizations, comprising the World Bank, the IMF, and the ILO. Equally, our exclusion criteria prohibit documents that were non-peer-reviewed. In terms of content, we strictly focus on literature on Ethiopia's industrial policy, structural transformation, or the manufacturing sector's impact on job creation in Ethiopia. Regarding, the utilization of publication works, the study employs academically sound papers that have been published in English. Besides, documents that don't have a direct relationship with the Ethiopian context were prohibited from being included by our exclusion criteria.

3.3 Data Extraction and Analysis

3.3.1. Systematic review methodologies (Thematic): The Thematic Synthesis approach was applied in the process of arranging the qualitative findings from the literature for the reason of identifying and categorizing basic limitations such as infrastructural inadequacies, skill gaps and policy changeability.

3.3.2. Quantitative synthesis (Time series analysis): Here the researcher aggregates the secondary time series data that cover years during (1991-2023) obtained from the reliable data sources of World Bank Development Indicators, the International Monetary Fund, and African Development Bank. This involved the process of analyzing trends in the sectoral shares of gross domestic product and job creation, and the growth rate of industrial value, in addition to relating the findings from the literature.

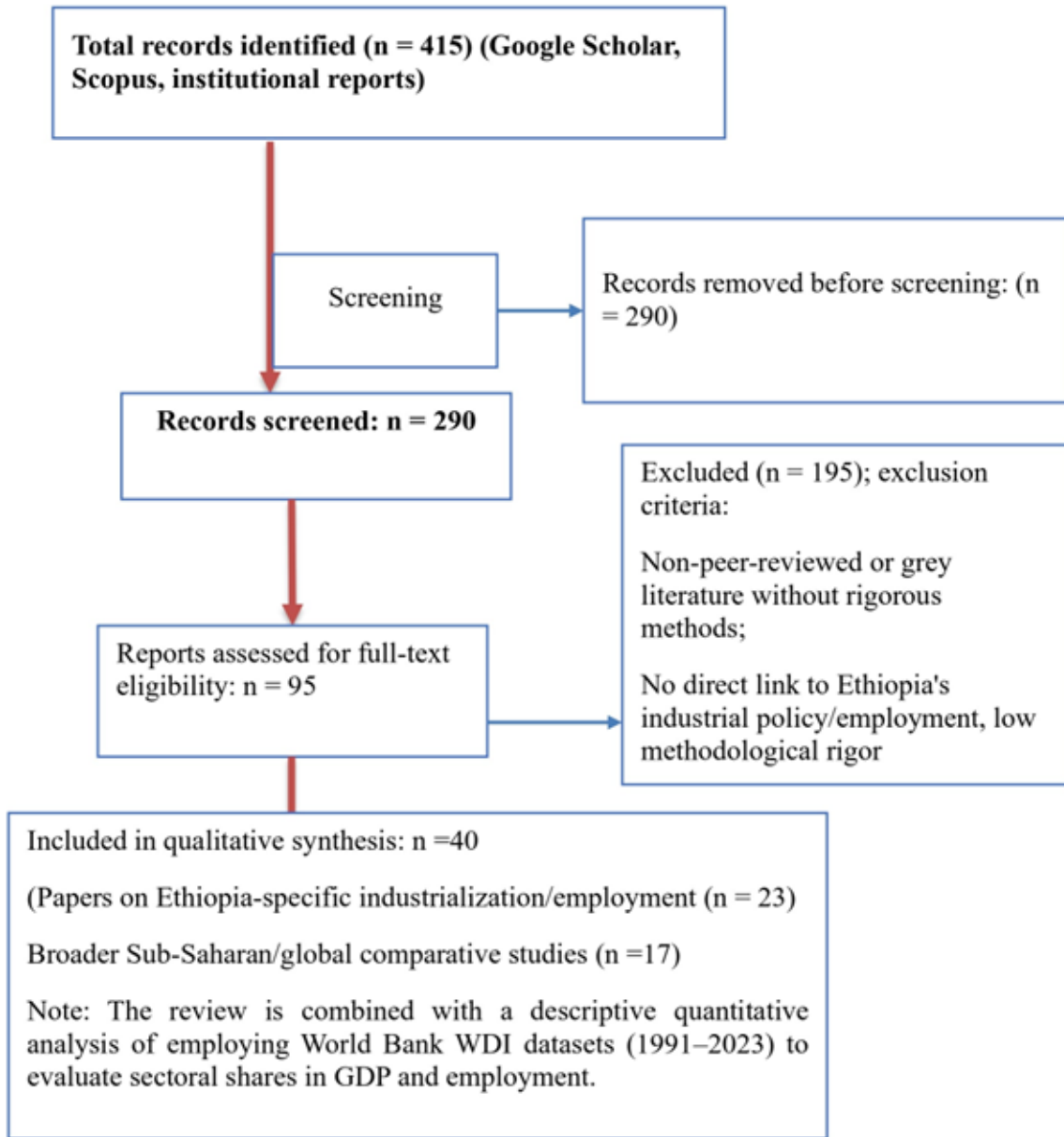


Figure 3. PRISMA flows diagram of the study selection for process for industrialization and employment in Ethiopia

4. Conclusion and Policy implication

4.1. Conclusion

Motivated by persistent high unemployment particularly among young people, this study examined whether Ethiopia’s industrialization has contributed to employment creation, as observed in other developing economies. In particular, it assessed the capacity of industrialization policies and practices,

including industrial park initiatives, to generate jobs for the working-age population. The growth employment paradox is the central finding of this study on Ethiopia, whereby fast GDP growth shows failure to bring a structural change to the highest productivity sector of industrial employment. Both reviewed theoretical and empirical literature ensure that the importance of industrialization for employment creation in developing countries. Nevertheless, Ethiopia's experiences separate it from this expectation.

From the historical time series data sourced from internationally recognized data sources such as World Development Indicators, IMF, and ILO and AfDB, the study reveals that even though employment grew between 2014 and 2019, structural transformation remained incomplete. A pattern identified as service-led transformation has been occurred because of largest shift of agricultural work to service, bypassing industry.

“Recent data from the World Bank (2024) indicates that industrial performance declined evidently over time. Industrial value-addition growth deteriorated from 23.9% in 2016 to 4.9% in 2022 (WB, 2024), signifying a course of premature deindustrialization that harshly inhibited labor absorption.” Therefore, it is obvious that this decline has immediately weakened employment generation, despite ambitious policy initiatives such as the National Plan of Action for Job Creation (NPAJC, 2020–2025), which aims 14 million jobs. Given the slow process of structural transformation, succeeding these goals remains unlikely.

In spite of the growth rate register of the country, unemployment lingers, indicating the failure of manufacturing's failure stagnant at around 5% of GDP for forty years to grow into a massive employer (Alemayehu, 2021). “According to the study conducted by Wolde-Rufael and Gebrehiwot (2023), capital labor ratios that diminish employment potential have been adopted as a result of a significant capital-intensive bias in export-led manufacturing, with modern companies.” Micro-level studies further indicate that industrial parks generate low net employment, frequently moving workers from informal activities rather than minimizing total youth unemployment (Yimer & Gebrehiwot, 2024). To handle these challenges, the study recommends the importance of policy orientation towards a sector capable of real structural transformation. In particular, following the agro processing backward linkage has a paramount importance to have a more direct pathway for mass labor absorption into industry (Gebrehiwot & Worku, 2023).

Generally, the findings of the study assured that notwithstanding the economic growth registered in the country, industrialization has not brought significant structural transformation or minimized youth unemployment. Institutional constraints, persistent capital-intensive bias, and low industrial labor absorption linger to hamper the employment capability of industrialization, taking agriculture and services as the leading yet lower-quality sources of job generation.

4.2. Policy implication

Ethiopian policymakers must shift from broad-based support to conditional industrial incentives to alleviate rising unemployment of the youth and improve structural transformation. A key action to be taken is the introduction of a Conditional Labor Absorption Mandate (CLAM), fastening government incentives especially in industrial parks to firms' success of measurable job-creation goals based on minimum labor to capital ratios.

Policies should give priority and kindly reward investments in labor-intensive sectors, such as agro-

processing, which provides robust backward linkages and eases high-volume shift for the rural workforce into industrial employment.

The government's for Job National Plan of Action Creation (2020–2025) targets 14 million new jobs by 2025; with the plan nearing its end, urgent action is needed to overcome implementation obstacles and realign efforts toward success.

The government should give priority of value chain integration by connecting agricultural raw material supply directly to industries rather than performing sectoral silos to encourage the NPAJC.

A shift of policy that emphasizes growth quantity to job quality should be focused on incentivizing firms that deliver high-wage formal employment. As a result, the critical socioeconomic challenge of Ethiopia, the paradox of high growth together with persistent unemployment will be solved.

Private sector growth with the emphasis of stimulating manufacturing expansion is essential to solving the industry's limited contribution to job opportunities. Persistent attention given to training in agricultural technical and vocational education training (ATVET) and its linkage with industries is essential to resolve the status of exclusion of young from modern jobs.

A policy designed by Ethiopia's Science, Technology, and Innovation (STI) that has been intended for the promotion of digitalization for job creation, skills development, and entrepreneurship should be put into practice in the government institutions and the private commercial entities to achieve the target of 14 million jobs by 2025 and 20 million by 2030,

Finally, a policy prioritization of structural quality and sectoral combination over mere growth targets should be undertaken. To unlock industrialization's employment capacity, address key restraints: develop a national employment database for evidence-based policy formulation; follow planned skills development; and promote robust domestic backward linkages between agriculture and industry to ensure raw material delivery, local value addition, and larger job delivery.

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