GLOBALIZATION & ITS IMPACT ON THE ETHIOPIAN ECONOMY

IN THIS ISSUE

• GLOBALIZATION AND ECONOMIC DEVELOPMENT: AN OVERVIEW OF THE ETHIOPIAN EXPERIENCE IN THE 90s BY JEMAL MOHAMMED

• GLOBALIZATION: POTENTIAL CHALLENGES AND OPPORTUNITIES BY HAILE KIBRET

• REFLECTION ON THE CHALLENGE OF GLOBALIZATION BY ASRAT BEKELE

• GLOBALIZATION AND INTERNATIONAL FINANCE: THE CRUCIAL ISSUE OF AFRICAN DEBT BY ALEMAYEHU GEDA

• PREDICAMENTS OF INTEGRATION IN THE HORN OF AFRICA BY YACOB ARSANO

• ISSUES IN ELECTRICITY SECTOR REFORM BY GETAHUN MOGES
FROM THE EDITOR

Recently, ‘Globalization’ has become a catchword. Its use at times can be very confusing. A lot of works on the theme associate it with its political, cultural, information, technological and environmental as well as economic dimensions. Notwithstanding the close interconnection among these facets of globalization, EEA’s recent panel discussion, which this issue of Economic Focus dwells upon, focused on the economic dimension and its implications for Ethiopia.

The main objective of the discussion of this theme is first to clarify the idea of globalization, if possible both from theoretical/historical and empirical perspective. Second, globalization may offer opportunities and also brings challenges. One needs to unravel these facets of globalization and attempt to articulate how a poor country, such as Ethiopia, would design strategies to cope with the challenge and get something out of it at the same time.

The simplest way of thinking about its economic dimensions is to discuss the channels through which countries are linked. These are ‘international’ trade and finance (and macroeconomic policies which are propagated through these channels). Moreover, the legal as well as the international financial framework that accompanies these linkages (such as policies of WTO, IMF, World Bank) are also important ingredients of economic globalization.

Although this issue of Economic Focus does not exhaust all the above elements, it certainly sets the framework for future discussion. As usual, we will be looking forward to your comments and papers to keep the discussion alive.

We have also the usual columns of Letter to the Editor and Economic Issues/Information.

Enjoy your readings of Economic Focus, Volume 3, Number 1!!.
LETTER TO THE EDITOR

To: The Editor-in-Chief
Ethiopian Economic Association
Addis Ababa.

Globalization: Analyzed? Or Misunderstood?

I listened to the three speakers, save Ato Asrat, at the last round table of the EEA on globalization in utter disbelief. Is that all what Ethiopian economists/intellectuals could come up with on globalization? Globalization is now a familiar subject in the rest of the world, and it is pretty much analyzed in conjunction with the process of social development [not just economic growth (sic)] and all the manifestation of underdevelopment caused and exacerbated by the process of market globalization [not just globalization’ in the abstract]. No wonder that nobody said anything at the roundtable about the impact of market globalization on trafficking of women, on the destruction of the environment and ecological changes and the concomitant impact of the latter on the globalization of poverty, feminization of poverty in particular, ethnicity and ethnicization of politics, and so on...

This is indeed because ‘globalization’ [therefore development] is taken just as an economic phenomenon, nothing else. Though Asrat did much better in this respect, his presentation still remained economicistic. However, market globalization is not just economic phenomenon. Analyzing this ground only, it is tantamount to completely missing the very essence of market globalization: hegemony. None other than the vectors of market globalization, the Bretton Woods institutions plus the WTO, will be pleased with this incomplete definition.

"Has globalization reached our country?" This question was posed, indeed seriously by one of the speakers who answered in the negative. One can’t help think of globalization as a strange monster from the North marching on the South!! A few months ago I was completely flabbergasted when one government official said at a workshop that “Ethiopia will not be affected by globalization!!” A minister is a politician and not much may be expected from an African minister. However, when an academic [and a Ph. D. holder at that!] flatly states that “globalization has not reached the country”, it is serious. Serious because, that person has no idea what globalization is all about. A brief glimpse at the political and economic context or origin of the globalization discourse amply shows that the discourse began during a period characterized by the prevalence of the debt crisis of the countries of the south, the introduction of the Structural Adjustment Programmes followed by a universal up roar against it and the imminence of the end of the Soviet Union with a clear implication of the “end of socialism” and “death of Marxism” rhetoric.

I found the entire premise of the presentations and discussion flawed. I presume this is in the main due to the organization and structure of the roundtable itself. More often than not, the issues that the EEA raised at the roundtable are more of a socio-political nature than economic. However, because the organizers seem to categorize these issues as economic, the structure of the roundtables including selection of speakers is decided on economic considerations. As a piece of advice, I suggest that the EEA also invite speakers from other disciplines and mingle them with economists. Otherwise, you will have a roundtable on globalization with nobody mentioning the essentials of globalization namely its devastating impact and consequences on the environment, ecology, women, national sovereignty etc... secondly, if it is reflection and debate what is needed at these roundtables, what is needed is just a framework for debate. And at such very short roundtables, much time need to be devoted to the debate than to the presentations. A maximum of two presentations or one presentation and one of discussant is enough to spark off debate.

Tekalign Woide Ammanuel

To: The Editor-in-Chief
Ethiopian Economic Association
Addis Ababa.

African of the Millennium: Emperor Minilik II

Born in 1844 August 20 from a housemaid who managed to find her way into a noble family because of the dream she had dreamt. Miss Egi-gayehu, working as a baby sitter in a royal court, had seen in her dream a shining light coming out of her womb. A wife of the king of the province of Shea, Queen Bezabish, who heard the story wanted to be a grandmother of the future Emperor, as she understood it from the dream and encouraged one of her sons Prince Hailomelekot to have a child from her. Thus came Minilik into this world.
Minilik at the age of thirteen was taken prisoner while Emperor Theodoros, who briefly ruled the country, was conquering Shoa, the province and the domain of rival King Sahle Sillasse grandfather of Minilik.

In the eyes of king Theodoros, Minilik won favor while in detention and was raised in the palace of Theodoros along with his son. Even then, Minilik, as he had not been at ease in the presence of the volatile and cruel characteristics of Theodoros, managed to escape from detention along with other prisoners from Shoa, most of whom later became loyal servants and followers of Minilik.

On returning to Shoa, he had not received a warm welcome. Instead he had to fight his way to the throne with the de-facto king who assumed power in the absence of a legitimate heir. And in September 1886 Minilik assumed power and was crowned as king of Shoa.

Much of the history of Minilik, since he assumed power in the province of Shoa, was dominated by his effort to expand south, west and eastward and bring the country under one rule which was attempted before by Emperor Theodoros but failed because of his extravagant display of power. In this Minilik succeeded because he displayed a high level of diplomatic wisdom combined with tactful application of power to conquer rival lords. Most frequently, he would spare descendants of the conquered and local rulers and delegate authority with a view to winning popular favor and saving the populace from the shame of defeat. When this is not possible he would allow the people to choose their own leader to be accountable in matters of local administration. Thereby he introduced the concept of central government responsible in matters of defense, foreign relations and policy matters while local governments assumed power in regard to local affairs.

Because Minilik was very much aware of the military might of a rival king Yohannes who managed to equip himself with relatively modern firearms, some of which he looted from Egyptian and Turkish invaders in the north, and some left to him by the British legion who had defeated Emperor Theodoros, he submitted to King Yohannes who latter became Emperor of Ethiopia and who himself after many trials to topple him, has officially recognized Minilik as King of the province of Shoa and it's environs.

After Emperor Yohannes was killed in a battle with the Dervish from the Sudan, the temporary power vacuum, together with other facts, provided a good opportunity for Italy which was under great urge to search for a colony with a view to restoring its lost pride and internal economic problem and with the approval of Great Britain managed to advance inland from the port of Massawa in the north. In 1891, with little resistance, Minilik was crowned as Emperor of Ethiopia. As part of this strategy Emperor Minilik has entered into a treaty with Italy known as the treaty of Wuchale where the Amharic and Italian versions of Article 17 in particular was deliberately distorted.

Italians gambled with this article to declare Ethiopia as their legitimate protectorate and accordingly they made this known to the world denying Ethiopia direct contact with the rest of the world. But the Amharic version of the treaty put Italians as facilitators in foreign contact whose service may be used upon the will of the government of Ethiopia.

Emperor Minilik, not knowing what the Italians had made out of the Wuchale treaty, sent a letter to the government of Germany, to make it known that he is the legitimate Emperor of Ethiopia. Because Ethiopia made this direct contact to the outside world, the Italians made a storm out of this citing the treaty that: “any contact should not be made with Ethiopia except through Italy”. In one incident, in 1891, Italy claimed to represent Ethiopia in the Brussels anti-slavery forum. As soon as Emperor Minilik learned about this he attempted to correct the problem according to his own original understanding and acceptance of the agreement. Accordingly, he wrote a letter to Umberto, king of Italy, in 1893. indicating the need to correct the article and accordingly informed all the countries which he thought had been misinformed before.

The Italians tried to maintain the treaty through various means including bribery of few local officials and few expatriate personal friends of the Emperor. When all failed the Italians sent their messengers to the Emperor with the same wish of saving the treaty from revocation.

When the messenger knew that the emperor stood firm, he very impolitely threatened the Emperor and his wife Empress Taitu saying, “the government of Italy will take even military action to enforce the treaty”.

The Empress retorted and it has been recorded by a reporter who accompanied the mission: “I am a woman. I do not choose for war. However, instead of accepting a treaty of this sort I prefer war”.

Subsequently, Emperor Minilik sent letters to European countries Indicating the revocation of the treaty. Some European countries, including Germany and Great Britain, thinking that Ethiopia would be overwhelmed by the Italian military might advised the emperor to reconsider his action and abide by the terms of the treaty.
Now with all hope of restoring the treaty gone, the Italians prepared themselves for an all-out war advancing southward from the north.

In response, Minilik issued a decree calling the nation saying; “God in his mercy has prevailed me expanding the territory and destroying the enemy....The lord has never let me down before. I have no fear either that he will let me down now. With the help of God, I will not give away my country to the enemy.... He who is capable enough let him come to my help with all his might. He who is not strong enough to go to war, for the sake of his sons and daughters, his wife and his religion, let him help me by his prayer humbling himself before God. For him who may dishonor his country by not complying to this call, I swear in the name of Saint Mary I will accept no mediator to which he could appeal”.

Emperor Minilik stood firm to go to war in spite of the propaganda warfare waged by the enemy, and subversive mission to buy off some of the local kings, in some few cases the enemy had succeeded to put few local lords out of the scenario.

Finally, Emperor Minilik marched to the north and had biten the Italians at the famous battle—the Battle of Adwa. Before the world Italian had been humiliated. Thousands had been taken prisoners: native Italian army personnel from all ranks and conscripts from the colonial territories. He had displayed abundant mercy to the prisoners of war. The moral standard maintained by Minilik in the midst of most bloody war was by any measure high. He kept low the pent for vendetta against the fleeing enemy and against those who had been taken prisoners by his army. He attached high value to the human race and always was not quick to engage in animosity because of his inherent quality to avoid unnecessary bloodshed especially between fellow Christians as he would most frequently remarked.

The pride of the nation had been restored. In fact, in colonial Africa the seed of a new spirit of liberty had been planted. After the news of the defeat of Italians, there had been talk of Africans who were under the heavy brute of colonialism raising their chins in the face of the white brutal rulers. The name Minilik had been frequently used as a symbol of black power. He displayed good diplomatic standard and noble quality in the very difficult situation he was in, considering the geopolitical situation and the provocative behavior of the European colonizers who dominated the region and whose desire to annex the land had been continuously manifested in various ways.

Emperor Minilik had a humble personality, and was farsighted. He endeavored to civilize the nation. He was in the forefront in the introduction of new ideas, services, technologies from Europe: the railway, telecommunications, commercial postal service etc., sometimes against the conservative attitudes of his own ministers. His zeal and selfless quality to promote the nation was beyond any measure. Apparently, he had not lived long enough to see his vision for the country: a better prospect for the coming generation much closer to the developed world. His beginnings would tell what a reformist he would have come, vested with a natural and clean will to promote his country.

I wonder whether a leader as genuine and honest has ever emerged to provide alternative to the oppressive regimes that had dominated the political arena.

Even though he has left behind exemplary leadership quality, evidently, Emperor Haile Selassie, in particular, was unable to take any lesson out of it. He left the country in abject poverty and subsequent political unrest.

Indeed, once upon a time, a time when the then sentiment of the colonizers that “black people are inferior to white people” was at its climax; gentleness, wisdom and high quality of leadership, has visited the land of Africa in the person of Emperor Minilik II and has more than discredited the fallacy which based on skin color.

I take the pleasure to name Emperor Minilik II African of the Millennium for his contribution in the economic frontier too. 

Getahun Moges Kifle

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**ANNOUNCEMENT**

THE ETHIOPIAN ECONOMIC ASSOCIATION IS PLEASED TO ANNOUNCE TO ITS ESTEEMED READERS THAT THE ‘FIRST ANNUAL REPORT ON THE ETHIOPIAN ECONOMY’ IS NOW ON SALE.

PRICE PER COPY IS 40.00 BIRR FOR EEA MEMBERS AND 50.00 BIRR FOR NON-MEMBERS.
GLOBALIZATION AND ECONOMIC DEVELOPMENT: An Overview of the Ethiopian Experience in the 90s

Jemal Mohammed
Head of Macro Planning and Economic Policy Analysis Department, MEDaC

1. INTRODUCTION

In the 1990's "Globalization" as a vehicle for development has become the most pronounced strategy on major international initiatives in the world. Ethiopia and its least developed allies went through a broad agenda of reform and voiced on global forums with optimism to reverse decades of socio-economic regress. At this important juncture to a new millennium, it might be worth-looking at the progress made towards integration as well as the opportunities and challenges faced so far, in order to prepare ourselves for the future with the hope of deriving the best out of the process of Globalization.

2. GLOBALIZATION FRAMEWORK IN THE 90's

In a very rudimentary sense, the economic dimension of globalization entails the process of integrating an economy with the world market. The economic interdependence through such process encompasses both product and factor markets involving transactions in goods and services, investment and finance. The overriding principle underlying globalization is beneficial to all parties in an environment of voluntary exchange on the bases of comparative advantage which in turn is enhanced through specialization. The source of comparative advantage for a country might be one or a combination of natural endowments and acquired endowment such as superior knowledge and specialization.

Turning to LDCs, there seems a priori consensus on areas where these countries, including Ethiopia, possess comparative advantage–natural resource-based and labor intensive industries.

Following the collapse of left-oriented systems, most LDCs entered the 1990’s with enthusiasm to address their ill-functioning economies through globalization. The general understanding in the above regard is that growth and development based on global market forces will lead to a more rapid, widely shared and sustainable growth. The distributional dimension of development under globalization envisages narrow development gap between advanced and less developed countries while at the same time helping to close income gap between rich and poor within a country.

The two-part strategy promoted to enhance the process of globalization in the context of LDCs entails putting "once own house in order" through adopting policy and institutional reform conducive for trade and investment expansion while the international community and most importantly advanced countries provide the necessary financial and technical support to ease shortage of resource needed to improve supply side constraints. In this process, global institutions such as the World Bank, IMF and UN agencies play catalytic role. Among the widely stated global initiatives include: the Uruguay Round Multilateral Trade Negotiation and the Establishment of the World Trade Organization, the UN Program of Action for LDCs for the 90s, UN-NADAF, and the Highly Indebted Poor Countries Initiatives (HIPC) for debt relief.

3. EMPIRICAL EVIDENCES ON LDCS IN THE 90's

Generally, empirical records on the effects of globalization turned out to be against LDCs. As per the recent UNCTAD report, despite notable efforts made on the part of LDCs in liberalizing their economies, globalization of economic and trade performance failed to benefit them. Thus, the 1990s were marked with low global economic growth, widening income gap between developed and developing countries and increasing income inequality within countries. Moreover, the decade was characterized by increasing job and income insecurity, and reoccurrence of financial instability and Intensive global crises. For Sub-Saharan African (SSA) countries, the adverse implication of 1990s was more pronounced as the prospect for marginalization becomes increasingly real and vulnerability to adverse development in global market increased.

4. ETHIOPIA IN THE 90's: THE CHALLENGE AND PROSPECT UNDER GLOBALIZATION

The opportunities and challenges a country face in the globalization process are partly determined by initial conditions including, the extent of integration
at the turn of the decade, the natural and man-made endowments the country possesses, and the adequacy of socio-economic infrastructure and human capital crucial for securing competitive advantage.

4.1. Ethiopia: Initial Conditions at the Turn of the 90's

By all standards, Ethiopia remains one of the least developed and less integrated economies in the world. Therefore, the challenge of Integration is multi-dimensional, calling a concerted national and global effort to redress both supply and demand related problems. First, Ethiopia, with per capita income of only USD 110 and high prevalence of poverty, stood among the poorest economies in the world. Likewise, Ethiopia's economy is the least integrated in all aspects of transaction.

<table>
<thead>
<tr>
<th>Table 1. Initial Level and Speed of Integration Index</th>
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<tr>
<td><strong>High income countries</strong></td>
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<td>Initial Level of Integration Index 1981-93</td>
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<td>Speed of Integration Index</td>
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<tr>
<td>High income countries</td>
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<td>1.26</td>
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<td>0.30</td>
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<td>Low and middle income countries</td>
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<td>-0.48</td>
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<td>-0.18</td>
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<tr>
<td>Sub-Saharan Africa</td>
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<td>-0.83</td>
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<td>-0.48</td>
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<tr>
<td>Kenya</td>
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<td>-2.58</td>
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<tr>
<td>Ethiopia</td>
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<td>-1.11</td>
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Empirical evidences suggest that the degree of integration and growth is directly correlated. For example, world economic indicators for 1990-95 depict the presence of such a correlation between globalization and growth. Thus, the higher the degree of integration, there is a productivity gain from trade and DFI in the form of exposition and diffusion of technologies, designs, products and management techniques.

Second, the low level of income along with high population growth and sustained environmental degradation forced the economy to remain within low-income equilibrium trap. This in turn has serious implication to the process of accumulation of human and physical capital.

Thus, the socio-economic infrastructure coverage is the lowest in SSA limiting the scope for exploring opportunities and face the challenges in today's global competitive environment. Table 2 provides a fairly comparative picture of Ethiopia in the above context. In addition, markets most importantly of factor inputs remain underdeveloped. It is worth-noting that being landlocked and located in one of the most unstable regions of Africa further exacerbates the problem.

<table>
<thead>
<tr>
<th>Table 2. Selected Development Indicators</th>
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<tr>
<td><strong>1. GDP per capita (US$, 1994)</strong></td>
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<tr>
<td>Ethiopia</td>
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<td>100</td>
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<td>Kenya</td>
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<td>250</td>
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<td>SSA</td>
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<td>420</td>
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<td>390</td>
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<td><strong>2. Life expectancy at birth (in years, 1991)</strong></td>
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<td>52</td>
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<td>53</td>
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<td><strong>3. Adult literacy (percent, 1991)</strong></td>
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<td>22</td>
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<td>40</td>
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<td><strong>4. Gross domestic saving (per cent of GDP, 1984)</strong></td>
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<td>34</td>
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<tr>
<td>16</td>
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<td>30</td>
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<td><strong>5. Fertilizer consumption</strong></td>
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<tr>
<td>(thousand of kg per hectare of arable land, 1972)</td>
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<td>71</td>
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<td>301</td>
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<td>136</td>
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<td>155</td>
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<td><strong>6. Energy use per capita (kWh, 1994)</strong></td>
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<td>21</td>
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<td>107</td>
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<tr>
<td>272</td>
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<td>384</td>
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<td><strong>7. Paved road density (km per million persons, 1999)</strong></td>
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<td>84</td>
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<tr>
<td>278</td>
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<td><strong>8. Infant mortality rate (per 100 live births, 1994)</strong></td>
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<td>120</td>
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<td>59</td>
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<tr>
<td>92</td>
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<td>58</td>
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<td><strong>9. Enrollment (primary, percentage of age group enrollee, 1993)</strong></td>
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<td>27</td>
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<td>92</td>
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<td>77</td>
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<td>112</td>
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Third, the dual production structure, heavy reliance on backward peasant agriculture, narrow export base, underdeveloped private sector locked in the informal sector meant weak inter and Intrasectoral linkages and limited scope for change and hence specialization.

Fourth, the failed effort to build a socialist economy between 1974 - 91, left behind extensively distorted policy and institutional environment hostile to private initiative and trade. The new regime which assumed power in 1991 has to address the pervasive problems caused by the two decades of economic mismanagement under the command economic system. The polices and strategies, therefore, have to address both structural as well as transitory problems notably socio-economic instability and failure of meeting international obligation.

4.2. Ethiopia: Reform Program In the Context of Globalization

The policy and Institutional reform initiated and adopted since 1992 was managed in consultation with the Bretton-Woods institutions. Therefore, the overriding framework for policy and Institutional reform measures was in line with the requirements for globalization. Among the broad spectrum of measures, the following characterize the key features of the reform.

- The legal and regulatory environment has been reformed in favor of private sector development and to attract FDI;
- The role of the state has been rationalized towards supplementing private initiatives and measures including privatization of public enterprises and reorientation of public expenditure
towards building the productive capacity of the economy;

- The mode of macroeconomic management was tuned towards restoring and maintaining stability;

- Liberalization of domestic markets for goods, services and factor inputs together with deregulation of prices;

- Progressive liberalization of the foreign trade regime including, substantial reduction in cost-price distortion including elimination of subsidy and tax on export (except tax on coffee), removal of non-tariff quantitative restrictions along with measures aiming at harmonizing and rationalization the structure and coverage of tariff rates;

- Instituting markets for factor inputs including foreign exchange;

- Decentralization of political and economic power with the establishment of a federal system of government;

- Civil service reform aiming at improving the quality and efficiency of service delivery by the bureaucracy.

Apart from adopting a broad range of policy reform on the external front to facilitate international trade and finance, recently, Ethiopia has become an observer in the WTO. To augment the domestic resource generation effort, the government seeks debt relief and strives to improve concessional external resource inflow.

4.3. Ethiopia: Economic Performance in the Context of Globalization

How does the Ethiopian economy perform since 1991? To what extent observed performance can be attributed to elements of globalization? Answering these questions might not be straightforward and easy. An attempt will be made here to highlight developments since 1991 focusing at selected macroeconomic indicators.

The overall performance of the economy between 1991 - 08 has been mixed. First the immediate challenges in terms of restoring macroeconomic stability and reversing declining pre-reform growth trends have been realized. At the same time, the volume of trade measured as share of GDP increased substantially originated from export recovery and expanded import. The amount of external resource inflow during those years has substantially increased from previous levels. Though limited, Ethiopia received debt relief in the form of rescheduling of arrears from Paris Club creditors. The flow of FDI resumed after two decades of effective restriction.

Second, looking at a glance at the above evidences, one can notice the following preliminary observation: (i) the economic recovery is highly-correlated with the growth of trade, (ii) the growth in trade was partly possible with increased availability of external finance; (iii) the gain in GDP growth by and large was related to improved capacity utilization as availability of foreign exchange relieved shortage of intermediate inputs and import required to reconstruct the war-torn infrastructure.

Thus, macroeconomic evidences suggest that external trade and finance played key role in realizing the immediate targets set under the reform program. From globalization perspectives, therefore, the scope for sustaining the 1991 - 08 recovery and macroeconomic stability, while at the same time implement the human and infrastructure development programs launched, remains to be a serious challenge.


Though the performance so far may seems encouraging the present feature of the Ethiopian economy made little progress in terms of improving its position in the global market and hence realizing its long-term objectives. Specifically, the economy is still far from achieving sustained growth, reduction of poverty, building resilience against external shock through transformation and diversification of the production and trade structure is still far from complete.

First, the experience gathered in the past seven years depicts that the Ethiopian economy confronted adverse terms of trade caused mainly by declining primary commodity price on the world market. Second, the limited gain from trade was by and large accounted for by traditional commodities implying no notable progress in diversifying the narrow export base. Though the supply-side problems still dictate the performance of export, Ethiopia like other LDCs face the adverse effect of global trade practices that affect the potential for expanding export of traditional products most importantly agricultural output and
textile. Despite the adoption of the Uruguay Round Agreement export of primary products faces a number of setbacks including:

- The trifaction of quota in DCs reflected on high tariff particularly on agriculture;
- The practice of subsidizing traditional sectors, most importantly agricultural in DCs.
- Textile and clothing remain to be subject to quantitative restrictions until 2005 even under the multilateral trade negotiation;
- Proliferation of unfair trade practices such as extensive use of antidumping action sanitary and phytosanitary measures as pre-text limit LDCs export;

Second, though the flow of external finance between 1991 - 98 to Ethiopia increased from trend level, it remained below what is needed to support envisaged growth targets. Moreover, the amount of debt relief acquired so far was insignificant compared to the extent of debt burden.

In fact, the prospect for international cooperation and support for Ethiopia's struggle for structural transformation, diversification and integration face danger as international financial institutions tend to use economic instruments to enforce political will in connection with the conflict with Eritrea. As these institutions fail to comply with initial arrangements under the 1998/99 Enhanced Structural Adjustment Facility (ESAF), the flow of external finance in support of growth and poverty-related programs declined. Moreover, the process of considering Ethiopia for the HIPC initiative was delayed presumably for the same reason.

5. CONCLUDING REMARK

From the above discussion, realizing accelerated growth and transformation in Ethiopia in the present globalization framework poses challenges than prospects. Like other LDCs, Ethiopia is facing the adverse effects of the operations of market forces asymmetry in an unbalanced environment. Compounded with supply-side problems, the capacity of countries like Ethiopia to build competitiveness in sectors where opportunities are likely for real is certainly far from adequate.

Thus, both the empirical evidence on LDCs and the above discussion on Ethiopia leads to a conclusion that globalization in the 1990's posed more threat than the opportunities that it created.

In spite of this, however, globalization is not an option for these countries. If so, therefore, the first best alternative shall be to explore ways and means to survive and maximize the gain from globalization. To this effect, the prime challenge shall be to develop and adopt a globalization strategy with a clear indication of how the benefit from such process shall be accrued to all the players. From LDCs perspective, therefore, such a strategy shall clearly outline the way and means in which the long-term development objectives can be realized at the same time limiting the adverse effects of unfavorable developments in the global market. The overall guiding principle in this regard includes ownership, partnership and mutual benefit.

The challenge could at best be addressed jointly through extensive dialogue and negotiation aiming at greater market access, reduction of debt, higher and sustained resource inflow, and greater support for diversification and capacity building efforts.

Source: Daily Nation, July 21, 1999

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GLOBALIZATION: POTENTIAL CHALLENGES AND OPPORTUNITIES

Haile Kibret
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1. INTRODUCTION

Even though globalization has become a fashionable concept in recent years, it seems to mean different things to different people. The views range from a position that perceives globalization as a grand design by the industrialized north to dwarf the development prospects of the least developed south by controlling the world economy by its transnational companies, on one extreme, to an economic linkage that fosters economic well-being of all countries (both poor and rich) by introducing free competition at a world scale, on the other. My view is that these two extreme views distort the picture, and hence such characterizations are neither enlightening nor helpful in dealing with the real dynamic international economic linkages. Instead, I believe that globalization should be viewed as a mixed bag with economic curses and blessings. What is required is, therefore, a “high priests” by the names of an efficient government, a dynamic private sector, and a cooperative international body which could purify us from the curses or at least minimize their effect and capitalize on the blessings. This may mean not accepting the bag in collaboration with others or optimize on the opportunities once the relative effects are determined. But trying to throw away the bag in one hand which has already gained ground seems unwise to me, particularly using a single hand (or few hands) like ours, which are already weak and fragile. Let me state from the outset, as I will try to show, this is something that has not arrived in our continent yet and certainly not in our country. The issue is therefore should we fear or hope of globalization.

In that spirit, before suggesting what I think is an appropriate policy stance, let me briefly address the following questions:

a) What are the most commonly used indicators of globalization?
b) In what ways is today’s globalization process unique?
c) What are the challenges globalization presents and the opportunities it offers for countries like Ethiopia? and finally

d) What are the optimal policy options available to mitigate itsils and seize the opportunities, if any?

2. MAIN DISTINGUISHING FEATURES OF GLOBALIZATION:

There are at least five distinguishing features:

a) Growth in trade: World trade has been expanding rapidly over time—instance, it increased 540-fold between 1820 to 1892. In 1997, the total value of world exports was $6 trillion.
b) Growth in FDI and capital flows: Growth in FDI has been much faster than growth in both trade and output growth. According to UNCTAD (1998), between 1980 and 1994, FDI stock to GDP ratio doubled; the ratio of FDI flows to domestic investment doubled; and outflows of FDI to world GDP ratio nearly doubled. FDI is the largest component of total resource flows, exceeding net private loans. The unfortunate part of this process is, though FDI has been increasing, it is continuously overshadowed by portfolio investment (investment in speculative capital or hot money) as opposed to long-term investment (or FDI).

c) Global production and consumption: Another feature of globalization is the increasing internationalization of production, distribution and consumption of goods and services—resulting in globalization of financial and capital markets, increased flow of FDI. As The Economist noted, “by the early of 1990s, about one-fifth of the total output of American firms was being produced outside of the US. And due to cheaper labor costs, many big western companies will soon have more employees... and customers... in poor countries than in rich ones”.

d) Global Competition: global production is accompanied by global Competition (both in price and quality) among the producers and suppliers of goods and services. For instance, in 1950, the US accounted for more than half of the world’s economic output...but only one-quarter in 1990.
e) Investment and Trade Liberalization Policies: In both the Uruguay round and in the recently held Seattle meeting of the WTO, the attempt has been to reduce both tariff and non-tariff barriers to trade and investment. Though not complete, the GATT attempts coupled with the structural adjustment in the case of LDCs have liberalized trade and investment signifi-
Globalization and its Impact on the Ethiopian Economy

Economies have been increasingly integrated into the global marketplace in recent years. These features are much smaller than comparable figures before 1914, when they were both close to 50%. In terms of internationalization of financial capital and trade, therefore, today's globalization does not seem that new compared to 1914.

If indeed this was the case about hundred years ago, what makes the current process of globalization unique?

It seems to me the following crucial factors make today's globalization unique:

a) The first unique feature is the mind-boggling advances in information and communications technologies which make financial flows instant worldwide.

b) And such advances resulted in the dominance of speculative capital over trade in goods and services and FDI flows. To get a picture of this magnitude, each business day, $1.3 trillion worth of foreign exchange transactions are carried out, and "nine-tenths of these transactions are reversed within a week, mostly within a day". Note that this volume is equal to three months value of total world exports and about 216 times the size of Ethiopian annual GDP.

c) The enhanced role of multinational corporations is another unique feature of today's globalization. Unparalleled by previous history, the UN reports that 350 transnationals produced and moved 30% of the total world output. This is bigger than "the output of all the developing countries combined".

d) The development and the strength of supra-national insinuations that regulate and enforce economic linkages at a worldwide level is another new feature of today's globalization. Such institutions include, the WTO which is attempting to harmonize the rules governing trade and investment flows, The IMF and the World Bank which prescribe how domestic economies should be structured and managed, which resulted in the liberalization of all economies in one degree or another.

The answer to the second question I raised above regarding the degree to which African countries are globalized is unambiguous one. Though few middle-income developing countries (China, India and some Far Eastern and Latin American countries) and some former soviet block countries seem to have benefited to some degree, most least developed countries (particularly African countries) are to date marginalized in terms of actively participating in the production and distribution of goods and services. Despite their recent attempts to liberalize their economies, none of the above features have manifested themselves in any meaningful way to date in any of the countries. The marginalization is particularly apparent in the areas of FDI flows, communication and information technology which are likely to be the crucial factors in determining the future growth of countries (based on the recent theories of economic growth).

What are the main reasons for this marginalization: Based on the preliminary evidence, there seem to be two reasons for this: First, due to political instability, inadequate infrastructure, appropriate institutions, skilled labor forces, and lack of a coherent articulated economic policies, African countries have not been able to attract adequate investment flows. And second, even though many countries liberalized their economies, the policy prescriptions advocated by international financial institutions more often than not focus on short-term fixes at the expense of sustainable long-term growth oriented policies. These factors have contributed to the marginalization of African economies when the rest of the world is "going global". In the case of African countries, therefore, what ever I say about globalization it could only mean potential and not actual benefits and challenges that globalization poses. As the study under way to assess the de-

Vol. 3 No. 1 / Feb-Mar 2000 11 Ethiopian Economic Association
grees of globalization and its effects on African economies demonstrates, at least in the countries selected (Zimbabwe, Botswana, Malawi) for assessment: No trace of globalization in terms of the above features was found. Hence let me ask the big question?

4. WHAT ARE THE CHALLENGES GLOBALIZATION PRESENTS AND THE OPPORTUNITIES IT OFFERS FOR COUNTRIES LIKE ETHIOPIA?

Let me begin with potential opportunities.

4.1. Opportunities: In principle, globalization could offer the following opportunities:

a) Appropriately acquired and correctly channeled, it could provide badly needed investment capital that could enhance productive capacity.

b) Enhance easy flow of technology transfer.

c) Opens markets for domestic products.

d) Makes a domestic economy more competitive by imposing work ethics, discipline and overall productive efficiency; and
e) Strengthens international division of labor based on comparable advantage.

4.2. Challenges that globalization poses: If proper policies are not in place, especially in the transition period, globalization may be hazardous to our economic health. Some of these economic-health risks include:

a) Weakening or destroying whatever little productive capacity there is, particularly in the manufacturing sector due to world competition.

b) Complete vulnerability of the domestic economy to external shocks, particularly when the "freaky character" called speculative capital is involved as was recently witnessed in some Asian countries.

c) Loss of sovereignty of governments to address distributional and other social issues as they see it fit. This will be so, since WTO rules and the significant role of transnationals would directly or indirectly put a constraint on what policies governments should pursue. And

d) May trigger competitive devaluation and unproductive competition among the least developed countries since as it stands most of them have similar endowments or comparative advantage. For instance, both Kenya and Ethiopia mainly rely on export of coffee and tea.

5. WHAT ARE THE OPTIMAL POLICY OPTIONS AVAILABLE TO MITIGATE ITS ILLS AND SEIZE THE OPPORTUNITIES, IF ANY?

In principle each country has an option to either join the process or opt out of it completely. But, in my view opting out of the process is not an option for a country like Ethiopia, or for any country for that matter. But collective action is possible. The only sensible policy option (if it is true that globalization is inevitable as some argue) is to do the following:

5.1. At the Domestic front countries should:

a) Identify and strengthen the strategic sectors which they believe have a comparative advantage in, and invest in such sectors (as in India in the computer industry and Turkey in the textile industry seem to have done in recent years);

b) Put in place the necessary institutions which would help the private sector in its drive to be competitive and the government in designing its policies; such a coordination between the private and the public sectors seems to be in fashion in the developed countries in the age of a diminished direct role of the government on the economy.

c) Set-up an efficient bureaucracy that would facilitate smooth operations of the economy;

d) Design an economic policy that takes into account the forward and backward linkages and links both short-term and long-term growth of the economy;

e) Focus on skill development that could easily adapt to modern technology and negotiate skillfully in dealing with international (bilateral and multilateral) bodies.

5.2. At the International front:

The focus of policy should be on collaborating with similar countries to capitalize on the opportunities and lessen the negative effects. Such efforts include:

a) Demand that they be exempted from maximum applicability of the stringent rules proposed by WTO ...rules such as minimum labor standards, competition and investment policies and rules of environmental protection, at least during the transition period.

b) Request that international institutions make funds available to help countries develop their infrastructure and human capital to be able to compete on an equal footing. This will include debt relief and other capacity enhancing measures.

c) Work for the institutionalization of a new world policy regime that takes into account the circumstances facing countries like Ethiopia.

In summary, since it is at a formative stage, we neither have the hard facts nor a reliable intuitive wisdom to say what the net effect of globalization will be. The jury is still out. But in the meantime, what is needed is a pragmatist and a business-like approach and not an ideological stance (which African intellectuals seem to be fond of), dwelling on what is here and not the past (as some African politicians seem to favor when challenged), trying to stand on one's own feet and put ones house in order and not always look for government to bail out (as some private business in most cases count on).
Since classification is by occupation, I can consider myself to be a member of the Ethiopian private sector. On the other hand, if I somehow fail to "fit the mould", so to speak, then you can take me as an imposter. I would like to start with the usual disclaimer. The view expressed here does not necessarily reflect the sentiment of the Ethiopian private sector, nor any of its institution.

Today, it is difficult to find a single word in any human language, besides God and probably Globalization, whose very utterance portends to express, or even explain with frightening ease, the myriad relationships which up to now have been established, more or less on stand-alone basis. Such as economics, politics, culture, etc. have now succumbed to adorning this "new" phenomenon; emboldened by phrases such as economic globalization, cultural globalization, political globalization, etc. I believe the clarification, better yet the understanding of the basic tenets of this all-too-important phenomenon, should become the paramount objective of our discourse. The applications and derivatives thereof, will hence become less treacherous.

Let us begin by heuristically defining globalization as, "The existence of relations between the different regions of the world; and hence as a corollary, the reciprocal influence that societies exert upon one another." This general and intuitive definition sometimes fail to capture the actual existing relations in the world of today. For example, the definition runs into difficulty when one has to explain the following application of it. "Hollywood influences the Massai, and reciprocally the Massai influence Hollywood." This statement certainly sounds preposterous! However, if we look at the first assertion separately, and on its own, i.e. "Hollywood influences the Massai, ..." then there is nothing ludicrous about it. So far, so easy. The second part, i.e., "...the Massai influence Hollywood" surprisingly, also has a grain of truth, however invisible. In the above example, reality dictates that the assertion as a whole is at best tenuous.

Let us now take another example, which is slightly more provocative and action-oriented. "Hollywood influences the Mafia, and reciprocally the Mafia influences Hollywood." The hesitation to be definitive on this one implies the existence of a symbiotic relationship of a sort between these two enterprises. Hollywood has now become the single largest export industry in the United States. In 1997 alone it has exported 30 billion dollars worth of culture, or cultural products, if you will. Similarly, organized crime collectively is estimated to gross about $1.5 trillion a year, globally. Out of this, the Mafia brand name, with its unique characteristics can be expected to garner a significant share of the above. The moral of the above exercise is to emphasize the fact that in the actual existing reality of today, relationships are either skewed, as in the case of the Massai, or more complementary as in the case of the Hollywood-Mafia connection.

Going back to the above definition and using the examples which are explained somewhat pedantically above, one can then claim that Globalization can favor certain societies, nations, or even centers, while disfavoring others. For example, the United States, Europe and Japan can more or less be taken as centers on their own rights and some relations which exist between the triad can be assumed to be more or less non-polarizing, ex, economic activities. In the case of military might between the triad, however, the relationship tilts towards the U.S (the U.S military budget is 30% higher than that of the total budget of NATO countries combined), and hence the relation between the U.S. and Japan, in this power-laden, but narrow field, can be assumed to be a polarized one, political rhetoric aside.

The interest of this paper is to try to elaborate what a polarizing globalization is or can be, and how it adversely impacts on all peoples of the world. But before we embark on this aspect of globalization, it is worth considering a more studied and biting definition of actually existing globalization.

Globalization is:
1. The establishment of global markets for goods, services, and capital.
2. It is the progression towards a global system of production.
3. It is the universal character of competing technologies (to men-
tion some of the new tools - the internet, mobile phones, media networks, etc...)
4. It is the political weight that the global system carries in the competition for global or regional hegemonies (again to mention some of the new instruments - NATO and increasingly the UN, etc...).
5. It is the cultural aspect of universalism (ranging from Hollywood-pornography to sponsorships in sport etc...).

Since this panel discussion is to concentrate on the economic dimension of globalization, we will look at 1) at length, assuming that 2) and its repercussions are somewhat obvious.

The existing global system which is fundamentally based on creating values, has in its core, the human labor as the prime maker of things. This "factor of production," as you economists would like to call it, however, has no meaningful freedom of movement within the existing global markets. To illustrate by example; today investors can move billions of dollars across the oceans by literally clicking the mouse. By the same token, tons of goods can be shipped from one corner of the world to another without a lot of constraints. But it is impossible, (except in cases of EU type elaborate arrangements with various conditionalities), to move millions of workers both, mental and physical, across borders of nations.

Obviously, there is some internationalization of labor, here and there, but it certainly is not the norm. One can then say that the market for labor is regulated on the global scale, while the market for goods and capital are more or less deregulated. In trying to understand the above, problems arise, as is the case with other plethora of establishment lingua in locating the regulation/liberalization/privatization nexus.

Ordinarily, we can accept deregulation to mean a prescribed policy, which allows the strategies or large global enterprises (Transnational Corp, TNC for short) to escape the constraints imposed on them by state policies. Deregulation encompasses, among other things, trade liberalization, investment laws liberalization, liberalization of capital accounts, etc... Moreover, it is clear that deregulation does not happen on its own but is rather a policy either willed or coerced which has to be put in action by all involved. The institutions which implement these strategies are: from within, agencies of the impotent states, compromised and marginalized to a large extent; and from outside, depending on the agenda, it can be either IMF, WB, WTO, etc...

To start with, these powerful multilateral organizations, which basically run the global system, only have a semblance of democratic governance. They are run and controlled by G-7 countries usually acting as the steering committee of the assembly of rich nations, like that of the OECD. This power-based governance structure systematically oppresses and stifles indigenous initiatives which are usually geared towards comprehensive development, i.e. Human Development. This is particularly true of the powerless and poor nations.

Interestingly, the recent bold attempt by Mahbub HAQ, (God bless his soul), to basically institutionalize the concern -that there is more to development than its economic aspects-has gained enough support to be formally acknowledged by the global establishments. Amongst his efforts, one culminated in establishing an annual publication which goes by the name, "The Human Development Report", and has since become UNDP's flagship document. Nonetheless, after ten years of solid experience, the publication still faces some resilient methodological problems which are perennially encountered when attempting to quantify, maybe, the unquantifiable.

Since intellectual respectability is associated with the capacity to quantify and dazzle with numbers, it is probably an excusable shortcoming. In this regards, I share the view expressed by AMARTYA SEN & MAHBUB HAQ, that, however vulgar the Human Development index is, it has at least achieved its main objective, which I think is to bring the preeminence of the GNP and its imposter into perspective. May be it is time to have one from UNEP in regards to our natural environment. I believe, the prevailing disarticulation of globalization and its inevitable consequences among the inhabitants of the globe should not be taken by the status quo as an excuse for more polarization. The live expression of simmering frustrations which surfaced on the streets of Seattle recently, might only be the harbinger of people-centered globalization.

Let us now turn to capital, the foremost globalizer of the lot. One form of capital which has come to be associated with productive systems and development is FDI (Foreign Direct Investment). In this form capital is usually, productive, manageable and predictable. Unfortunately, its other versions have become increasingly fluid and disruptive.

In this category, we can include portfolio investments and other self-serving speculative adventures. Most of today's global financial transactions are not proceeds of goods (serves) bought or sold. In today's globalization, as was the case in previous polarization (Pre-1992 crush), finance capital has transformed itself from its original base, i.e., from being the means to becoming both the ends and means of transactions.

This intense "financialization" of capital is one of the major problems of the existing global sys-
Economic Focus

Globalization and its Impact on the Ethiopian Economy

A.D. Mekuria

In 1975, international securities transactions represented less than 5% of GDP in the leading industrial countries. Twenty years later, they stand for example, at 1000% in the UK. To me, money is not just any other commodity, (the view of the neo-liberals), but is rather the encapsulation of raw power legitimized by economic and social systems. The assumption that it can be commodified relentlessly, the way nature is being ravaged and commodified is to me untenable. For example, the daily transaction in the currency market alone has now reached 1.5 trillion dollars, which is about 7% of OECD's GDP! Today, finance capital reigns not only supreme, but is becoming increasingly slinky and unpredictable, with an immense capacity to devastate a nation literally within hours of its onslaught. If it decides to abandon a particular market, thanks to deregulation, it can do so without constraints. Common justifications for its departure include, "the fundamentals" not being right or not made right in a given economy. The obvious moral peddled here is – economies should adjust to this loose-footed and speculative predator!

Now let us assume labor (physical & mental) has the luxury of this movement. Then like finance capital, it can move from one place to another looking for better remuneration. If a particular place becomes unattractive, then it can move on mass – to another domicile looking for better returns, so to speak. The initial impact of this would be the convergence of factor prices on a global scale and ultimately (among other things, since labor is human), the harmonization of the distribution of income on a global basis and the continuous establishment of equilibrium (at least non-polarity) across nations or economies.

The reality on the ground is of course far from this supposition. Labor is regulated on a global basis, while capital is deregulated and hence globalizing freely. This is the fundamental problem of today's globalization. This global law of value, which restricts labor from mobility, is the source of today's polarizing globalization, (unlike the previous law of value which was conscripted into the nation-states).

The multilateral institutions mentioned above are basically functioning to support and clear the way for the globalization of capital, which is being spearheaded by the TNC's. On the other hand, there isn't even one effective global institution whose agenda is the globalization of labor. Why such a vision is consistently absent amongst the privileged of this system is understandable. What is puzzling is the reaction, or more precisely, the inaction of "the wretched of the earth!"

Unfortunately, the wretched are particularly busy annihilating each other under the pretext of identity politics. Cognitive dissonances such as racism, ethnicism, sexism, fundamentalism, etc., have now taken center-stage in the lives of the wretched. The incapacity to manage diversity within existing nation-states has triggered the proliferation of "ethnic states," or their look-likes.

Even though globalization has been undermining the functioning of existing states, it has openly encouraged the formation of new and mostly "small" states, or "Banana Republics," to use a phrase coined by the Americans. Reasons or excuses abound, ranging from democratic aspirations to prosecution, actual or imagined. To those familiar with the workings of empires or hegemonies, there is no mystery about this seemingly ambiguous and contradictory position, which, on one hand, creates almost "non-viable" states, and, on the other hand, destroys somewhat "meaningful" ones.

The political globalization of today has yet to show one example whereby it has induced "mini-states" with a lot of common characteristics to forge a shared common destiny. Given the circumstances, today's political globalization might not even spare the European project, which so far has helped to restrict the European "nation-states" from engaging in belligerent activities. If Europe wants to assert itself (via the Euro initiatives), then it can easily become another pole, otherwise, it will be doomed to remain only a common market for exchanges. The potentiality of creating poles can also bring China and probably Russia to the fore. Only time will tell whether this multi-polar world will become a reality or not.

So far, the most successful superpower doesn't seem to understand or even care about the aspirations of other nations that inhabit the world alongside it. This, I think, will cost it dearly. The British Empire in previous globalization has made the same mistake. Whether the US, essentially an offshoot of the British, will increasingly assume this aggressive "Anglo-American only" stance is something that remains to be seen.

So long as identity politics rears its ugly head within the wretched and has no potential to destabilize the global status-quo, then it seems that the self-destruction can go on unencumbered. The overused adage "divide and rule" is still relevant. On the other hand, if identity politics tries to overreach by projecting towards the outside, in a consolidating manner, then it will be checked swiftly, viciously, and comprehensively. Here, Islam fundamentalism comes to mind. To me, real nations have always been confident, incorporating, diversified and somewhat dignified, but always messy and clumsy. We can not always have them neat and clean like Singapore, or Monaco.
These are more like "city-states" rather than "nation-states." I also believe that great nations do not subscribe to the small-mindedness of the villages, where everything is either "us" or "them."

Experience indicates that respectability and achievements have always been the characteristics of real nations, like that of the United States of America, the United Soviet Socialist Republics, the United Kingdom, the Republic of India, etc... When great nations (in overall capacity) succumb to the myopic vision of the village (the "them" and "us" logic) then, they threaten to undermine the important notion of "global village", with their hegemonic ambitions.

It is my opinion that identity complex will not find resolution by closing on itself. It is on a different plane of reflection that we should look for satisfactory solution. More than any thing, I believe, it would require the willingness and determination to transcend our primordial drive and objectives and replace them by new liberating sensibilities. The competition should be geared towards achieving more humanity, not more bestiality.

I believe, the ultimate fate of these "mini-states" is tied to the existing political globalization. One option is to go the way of the "Native Americans", peacefully vanishing from the scheme of things, à la the international reservation system, which is more refined and subtle than its domestic counterpart in the United States. Selective migration (ex. DV, etc) can take place alongside this devitalization. In this category, we can easily place the resource poor, land-locked countries.

Another similar option is to become a live appendage of the system whereby their future will be actively and systematically constructed by the prevailing globalization. This might include, besides migration, the possibility of effective (sometimes geographical) incorporation into the system. Here resource rich and coastal nations come to mind. The deafening noise of the "end of history" rhetoric reassures us that history has closed its door to the dispossessed. It will indeed be sad if this proclamation takes over the aspirations and ideals of a large portion of humanity and bury them along with the Bolshheviks and their Internationals. So much for political globalization now. The means by which the existing global regime effectively perpetuates itself will be examined later, but now we will look at domestic polarity, or domestic inequality which has come to establish itself as one of the defining characteristics of modern nation-states.

The "Human Development Report" of 1999 has a wealth of information along this line, and UNDP should be complemented for being forthright about the data and statistics with which it illuminated the nature of polarizing globalization. Though, its euphemism is understandable, it sometimes masks and de-emphasizes the sinister motives at play, and hence inadvertently discourages serious inquire. I will only extract some numbers to highlight the domestic polarity or inequality within nations. In 1978/88 Ukraine and Russia had a Gini coefficient of 0.47 & 0.48. Hence by this measure, inequality has doubled in these countries. In Brazil, the poorest 20% of the population receives 2.5% of the household income, while 20% of the richest receive 53.4%.

In most of the OECD countries, income inequality increased in the 1980's and 1990's with the greatest increase registered in the US & UK, and the lowest in the Nordic countries. Today, barely 1% of Americans own more than 43% of the national wealth, and over 90% of non-residential wealth. Moreover, close to a quarter of the Americans now live below the poverty line. Economically speaking, the US has become one of the most undemocratic nation in the world. As a consequence, its other democratic pretensions will not auger well in light of this extreme inequality. Like many things there, democracy has also become very capital intensive. Another interesting statistics is that a yearly contribution of 1% of the wealth of the 200 richest people could provide universal access to primary education for all ($7-8 billion).

In both poor and rich countries, whatever accumulation has been possible, it has gone disproportionately to profit rather than wages (i.e. capital rather than labor). For example, in the US, the average real wage levels of today are actually lower than the late 1970's. On the other hand, gross operating surplus, defined as a percentage of gross value added, rose from 28.8% in 1973 to 37.2% in 1990 in the US.

In the 1970's unemployment rates started to rise sharply in the OECD countries. From 1973 to 1983 the rate has already doubled to 6% and the developed world started to come to grips with the new phenomenon of "jobless growth". Today, 11% of the Europeans are unemployed. "Corporate restructuring, (which usually means, cost cutting, downsizing etc.), mergers and acquisitions have taken their tolls. There is no contention that labor is mercilessly devalued by capital, either directly or via technology. What is not obvious, but real nonetheless, is the systematic devaluation of capital itself. This will be our next topic.

Let us start by observing some facts about the OECD economies. After 1973 (probably the beginning of the prevailing global stagnation) the recorded rate of growth of fixed investments in the OECD countries started falling below that of GDP, contrary to the experiences of the growth decades of
the 50's & 60's. In the decade of 1960-1970 GDP grew by about 5% while fixed capital formation grew by 6.5%. However, in the decade of 1970-1980, GDP was 3.3% while fixed capital formation was only 2.2%. The first half of the 90's also saw GDP growing by about 1.3%, while fixed capital formation was only 1.4%. This has resulted in a steady rising capital surplus within the OECD. Today, OECD alone generates about 2 trillion US dollars worth of investible capital per annum, which is equivalent to about 10% of OECD’s GDP!

This productivity of capital is generated both from the normal cost-cutting exercises and from progressive switch to more productive technology, in other words, a long-term decline in what you economists call, the incremental capital-output ratio. The offshoot of these all is that, today, there is an abundance of capital which cannot find productive outlet within the global system. The desperation to find outlets for the mountains of cash has resulted in "financialisation" and speculative bubble which the current US economy amply exemplifies. Since the American economy anchors today's globalization, we will examine its impact and sustainability through the eyes of its economists.

The American economy, it is said "...has entered a new economic era of faster, inflation-free growth and hence stronger profits, thanks to new technology and globalization. We beg to differ..." says The Economist, one of the most prestigious mouthpiece of the dominant ideology. "America is experiencing a serious asset-price bubble," it concluded. This conclusion has been repeated in its numerous issues in one form or another, but no body seems to heed. The MIT economist, P. Krugman, described the existing euphoria, "...As more and more Americans began buying stocks, there was a sense, almost a consensus, among sober heads that this was a classic bubble." Moreover, the new paradigm or the new economic argument which is being parroted by establishment gurus is very shallow. "The computing and communications — technology sector collectively is only a modest 5% of the US GDP. The value added of Internet sales — i.e., its contribution to GDP is probably little more than 1% of GDP," according to The Economist. It goes on to say, "As the Fed itself says 'There is no means of knowing beyond question how far this recent rise in stock prices represents excessive speculation and how far a readjustment of values to increased industrial efficiency [...] and larger profits.' Actually, it was not Alan Greenspan who said that. This is an extract from the Fed's minutes exactly 72 years ago, in 1928 on the eve of the Wall Street Crash."

On its November 6, 1996 article entitled "Living on Borrowed time", it asserted that "an unsustainable build-up of debt may be an even bigger threat to the boom in America than a rise in inflation or a collapse in share prices." In 1999, America had the fantastic private net savings of minus 5.5% of GDP, (which later on was cleverly adjusted to a positive rate), i.e., spending has exceeded income (Not savings). Given that consumer spending accounts for roughly two-thirds of the US economy, this certainly spells a bad omen, not only for America but for the world as a whole. This article concluded by alluding to the need for a divine intervention, "If America does pull of a soft landing, where others have failed, that will indeed deserve to be called an economic miracle."

All available evidence suggests that this situation is not only unsustainable, but is actually a ticking time bomb, whose inevitable implosion will bring a massive devaluation of the asset value of capital, probably unprecedented in history! Surprisingly, the knowledge that there is a glut of capital in the world today is one of the best-kept secrets of the global status-quo. The means by which capital postposes its impending devaluation include privatization, floating exchange rates, very high real interest rates, debting the poor, the US external deficit (which would have been intolerable elsewhere).

The case of the US external deficit playing the bubble is highlighted by another American expert; "Another factor inflating the millennium bubble is the presence of the US trade deficit or the rest of the world's surplus. As the planet accumulates more and more dollars, it does not know what to do, except to send them back into US treasury bonds or stocks. [...] Never before in world history has a nation benefited so much from its trade shortfall."

Let us now watch privatization at play in a typical poor country. Say, the national electricity or telecommunications company has constructed a network of production and distribution systems at enormous costs when the dollar was worth 100 local monetary units. Through the privatization program, it is now sold to a TNC when 100 local monetary units are worth ten US cents. Moreover, the debt this company has acquired in purchasing the equipment and technology at the time when 100 local monetary units were one US dollar still need to be paid in dollars at today's exchange rates. As if this is not a crude joke, the state is summoned and told that the equipment is not only old, but so outdated that they are not even worth-considering. Obviously, one of the missions of privatization is to serve as an exhauszt for the accumulated excess finance capital. But is this a massive devaluation of the capital laboriously accumulated by the poor, whatever the reasons? To start with, and by and large, the state went into "business" on behalf of its
people, not because it wanted to, but because there was no one willing enough to put up the enormous capital required for such development activities, (be it, private local or private foreign).

Once the groundwork has been established and there is some semblance of a modern economy operating, at least modern enough to attract private capital, then the logic and modus operandi change swiftly. Certainly, I am not trying to discount the incredible capacity of the state to create a rentier system custom made for cronies, nor its inborn inefficiency and bureaucracy, ideally suited to perfectly mismanage and bankrupt the nation; but only to place the misplaced rationale of the private capital argument into perspective. To this day, we do not find private capital clamoring to get into the business of running schools, health institution, etc...(or even borderline profitable projects). At least in the developing world these are still the preoccupation of the state.

Moreover, since accumulation in the peripheries is becoming the Achilles heel of both the state and the indigenous private sector (if one defines a private sector operator as one who is a non-wage earner, then Africa doesn't have much else), I believe, other creative means should be found for financing development.

It is my opinion that the organized private sector has its limited role to play (and this is to run its course, given the circumstances) in the development effort, in the meantime, state (ization) and Community (ization) (different from communes) have to resume alongside privatization, albeit efficiently and prudently. It is also interesting to compare and contrast privatization in the developed and developing countries. In the developing countries, privatization usually means, de-statization or anti-monopoly, (read as anti accumulation). In developed countries, however, privatization seems to mean increasing monopoly (hence, accumulation) by the private sector. Recent consolidation by the TNC's has given the concept “privatization” a new twist, in the tradition of neoprene. Today the top 100 TNC’s account for almost half of the goods traded, globally! Moreover, the largest 1000 TNC’s account for 80% of the world’s industrial output.

Globalization is not new. It has already gone through various phases. The globalization of mercantilist era between 1500-1800 and before the advent of industrial capitalism had a benign disposition. Industrial Capitalism (around 1800 and its beginning financialization (around 1880) in the cores, and territorialism (the old version of colonialism) in the peripheries, finally leading to the great depression, (after the crash of 1929) deserves separate treatment. Here, we will only look at the three systems of social regulation that heralded a new regulated globalization which was at once multipolar and growth-oriented. They rested on three major pillars.

The first was “Sovietism” - a catching-up strategy which basically employed the concept of “capitalism without the capitalist.” It was systematically de-linked from the world system and pursued its own objective. This exercise which was on a massive scale gave the impetus to the second one and forced it to impose a limit on the commodification of labor. Historically unprecedented, the second one ushered a workable compromise between labor and capital. This social democratic alliance culminated by forming the “Welfare States” of the West. The third is the Bandung Project (named after the place which cleverly leveraged the East-West divide). It was a newly and precariously negotiated and revised global interdependence which gave some room to the national development agenda of the third world.

I also share the view that these three pillars, which fostered growth and tangible human development on scale unparalleled before, have more or less collapsed. In the first case, it suffices to reiterate the saying that “Today’s Russia is a developing country, with nuclear capability.” The Welfare States of the West are no more welfare-oriented and the polarization within those states has become intolerable by their own standard. If the West has “managed” to absorb the crisis better, it is probably because production has more or less abated there (zero or less than zero growth rate). The Third world has divided itself into a third, fourth, fifth world, and only a handful have escaped to the category of the second and the first world. Even those achievers are now facing difficulty sustaining their newly-found position.

What are the means the existing globalization uniquely has (again different from previous polarization) at its disposal to perpetuate the polarity witnessed between and within countries? I will start by quoting Mr. Thomas Friedman, US Secretary of State Madeleine Albright’s advisor. “The hidden hand of the market will never work without a hidden fist. McDonald’s can not flourish without McDonnell Douglas, the designer of the F-15. And the hidden fist that keeps the world safe for Silicon Valley’s technologies is called the US army, Air Force, Navy the Maine Corps.” I go even further and say that today’s globalization operates under the framework of what are now called the five monopolies of the system.

In the parlance of the dominant powers, the blisterous Mr. Friedman (and his likes) expected, they are classified under the rubric “National interests”. These monopolies are 1) financial, 2) technological, 3) the control of the earth’s resources, 4) the media
and 5) weapons of mass destruction.

Whether the existing global system can use the above five monopolies effectively so as to impose its will on humanity on a sustained basis is something that remains to be seen. So far, globalization has presented itself as a grotesque behemoth of one-dimensional character which is ready to consume both man and nature only to spew out suffocating monocultures in all spheres of existence. Globalization has yet to prove that it is a thoroughly sustainable, pro-life, human centered, technologically driven liberating construct with a capacity to understand and manage the diversity with which the earth is endowed.

In the absence of a global governance which is equitable, democratic and which takes into consideration the diverse global reality of today, the future looks disturbingly uncertain! Echoing history, we can ask, “What is to be done?” Who can force such a desirable global governance to the fore? Will or even should the existing (meaningful) nation-states survive the unbridled globalization of today? I believe these are important issues which need to be reflected upon thoroughly.

We can now ask what globalization means in the Ethiopian context and how Ethiopia should behave given the all-encompassing nature of the phenomenon. As for some aspects of economic globalization, it is not difficult to know or predict the most likely outcome such as, WTO.

Unfortunately, like other deeper concepts, globalization has now attained full vulgarization in Ethiopia, thanks to the daft logic of “understanding by simplification”. Today, it has become the rage among simpletons in the popular media. More substantially, and given the above prognosis, how can Ethiopia handle the sinister features of today’s globalization? I believe Ethiopia should construct its transformation, its reconstruction project, in the sense of The Meiji, should look at itself from the inside and devise an indigenous vision. It should be positive, proactive and persistent towards it. It should reconstruct (I do not subscribe to the prevailing political gibberish about its past, hence, the word reconstruct), painstakingly but patiently. It should participate the populace. It should prudently manage the systematic offensive of the global system. Most of all, it should persevere! The “why’s” and “how’s” of the “reconstruction thesis” should be articulated by all concerned, whether they are in or out of real politics. If anything, at least it should deserve another panel discussion. At this juncture, I would like to quote one of Ethiopia’s capable leader whose attempt in managing the previous offensive was somewhat exemplary given the circumstances. “We have received the arrangement made by the three powers (Great Britain, France and Italy). We thank them for their communication and their desire to keep and maintain the independence of our government. But let it be understood that this arrangement in no way limits what we consider our sovereign rights.” Menilik, against the Tripartite Treaty of 1908 (Dec 13, 1906, London) which was signed unilaterally by the powers, emphatically asserting their interests on and about Ethiopia.

The foregoing expose is essentially the work of independent and profound thinkers of our time. My job has been simply to cut and paste their findings. If it has helped in illuminating some of the problematic of globalization, then the credit should go to these sublime teachers. On the other hand, if it has failed to enlighten, then take it as another case of, “From the sublime to the ridiculous”, I rest my case, and thank you for your patience.
Globalization and its Impact on the Ethiopian Economy

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Vol. 3 No. 1 / Feb-Mar 2000

Ethiopian Economic Association
Globalization and its Impact on the Ethiopian Economy

Source: The Economist January 15th 2000
GLOBALIZATION AND INTERNATIONAL FINANCE: THE CRUCIAL ISSUE OF AFRICAN DEBT

Alemayehu Geda
Assistant Professor at the Department of Economics, AAU.

This issue of economic focus has attempted to explore the many facets of globalization — a term which seems the most illusive. One approach that could help at grappling with the implications of globalization is to focus on specific aspects of it. In this short article, I will focus on international finance issue. International finance in African context is fundamentally aid and its concomitant result debt. The modest objective of this paper is to highlight the severity of this problem at the continental level. In this paper, I haven’t attempted to analyze causes and propose workable policy direction. The interested reader may refer to my forthcoming work on this issue (Alemayehu, 2000, Chapters 1, 9 and 10).

African economic problems can be seen as a complex of interrelated factors of an internal and external nature. This article focuses on the latter. The external finance problem, and debt crisis in particular, represents one of the major problems facing African nations today. As can be seen from Table 1, the total external debt of Africa has risen nearly twenty-five fold from a relatively low level of US $12.6 billion, in 1971, to nearly $300 billion in 1987. (Further details of this debt are set out in Alemayehu, 2000). The major component of this burden comprises outstanding long-term debt. During the late 1970s, and early 1980s, IMF credits were increasingly used with ‘Structural Adjustment’ and ‘Enhanced Structural Adjustment’ facilities comprising an ever-important component of flows to Africa.

Table 1. Major Debt Indicators for Africa (in Billions of US dollars, unless otherwise stated)

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Source: Alemayehu (2000).

Thanks are due to Elias Keidar (my colleague and friend in the Department of Economics) for helping me update the data during last summer.

Vol. 3 No. 1 / Feb-Mar 2000 25 Ethiopian Economic Association
Economic Focus

Globalization and its Impact on the Ethiopian Economy

Table 2. Major Debt Indicators for Africa (in Billions of US dollars, unless otherwise stated)

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*Simple arithmetic mean
Source: Alemayehu (2000).

Net transfer = Loan disbursements less amortization and interest payment [as defined in World Debt Tables (see Tables 1.4 to 1.6 in Appendix I for details)]
Aggregate net transfer = Aggregate net resource flows (loan disbursements less amortization) plus official grants (non-technical) and foreign direct investment (FDI) less interest payment and FDI profit [as defined in World Debt Tables (see Tables 1.4 to 1.6 in Appendix I for details)]

Changes in the structure of African debt can also be described in terms of creditor patterns. From Table 1, it can be seen that bilateral debt comprises the largest component of Africa's total debt. This is followed by multilateral debt, with private inflows showing a decline. Generally, it may be observed that a larger share of official debt is now disbursed on concessional terms. Finally, it is interesting to note that the debt problem is being aggravated by capitalization of interest and principal arrears, which constitute nearly a quarter of the external debt burden.

Although the share of African debt as a proportion of the total debt of developing countries is low, the relative debt burden borne by African nations remains high. As can be seen from Table 2, the debt to GNP and debt service ratios rose from 20 per cent and 9 per cent, respectively, in 1971, reaching a high of 110 per cent and 25 per cent during the late 1980s. In 1997, the last year for which we have data, these ratios stood at 100 per cent and 17 per cent, respectively. Africa's burden of debt may also be assessed by examining net transfers to the sub-regions. Thus, if we exclude from Table 2, grants and net foreign direct investment inflows, it can be seen that net transfers since 1985 have, in fact, flowed from Africa to the developed nations. Further, it is noteworthy that the level of such transfers has increased, from US$1.7 billion in 1985 to nearly US$7 billion in 1997 (the latest figure available). Finally, it is worth pointing out that nearly 35 per cent of grants to Africa, in fact, goes to 'technical experts' coming from the North.

In summary, the last three decades have witnessed an unprecedented increase in the level of African debt. This debt is characterized by its predominant long-term character, the growing importance of debt owed to bilateral and multilateral creditors, a trend away from concessionality to non-concessionality and an increase in the importance of interest and principal arrears (usually capitalized through the Paris and London clubs) as a component of long-term debt. Indicators of the debt burden also show that African debt is extremely heavy compared to the capacity of the African economies, and, in particular, their export sectors. Moreover, most African nations have been subjected to net financial outflows in the period since the mid-1980s. The performance of these economies, coupled with a mounting debt burden, surely indicates that African countries are incapable of simultaneously servicing their debt and attaining a reasonable level of economic
growth, let alone addressing issues of poverty alleviation. It is not hard to imagine how the above figures show only an 'average' scenario, for African nations in general. However, there are significant exceptions to the picture painted by these statistics. Specifically, Burundi and Guinea-Bissau, in the WCA region, had a debt service ratio of 40 per cent and 94 per cent, respectively, by 1992, while Uganda and Madagascar in the ESA region had ratios ranging from 40 to 70 per cent and 50 to 80 per cent, respectively, from the mid 1980s. In relation to -debt to GNP, Mozambique recorded a ratio ranging from 300 to 550 per cent from the mid 1980s to early 1990s, while Guinea-Bissau had a debt to GNP ratio of between 130 and 300 per cent from 1980-1990. Finally, the debt to GNP ratio for Congo and Cote d’Ivoire stood close to 200% during the mid 1980s (Source: World Bank, World Debt Tables, electronic, 1994).

### Announcement


### For Informative and Valuable Information on Ethiopian Economy and Other Topics of Importance, Subscribe to Economic Focus.
This paper is based on the presentation given at the Round Table Discussion on Regional Economic Integration, organized by the Ethiopian Economic Association and sponsored by Frederick Ebert Foundation; held at Imperial Hotel on June 16, 1999.

By no means, the concept and practice of regional integration are new in international relations. No country is self-sufficient in everything. States group together at various levels to deal cooperatively with the political, economic, social and security problems. In most cases, geographical proximity typifies the regional organization of states. ASEA, OAS, OAU, ECOWAS, EU, COMESA, IGAD, North American Free Trade Area, SADC are the geographically proximate regional groupings of states. There are however situations where community of interests becomes a driving force for states to get organized. The Commonwealth of Nations and the Non-Aligned Movement are two examples of the latter category.

For regional groupings to survive, attain their objectives and to eventually develop into regional integration, there must be an amenable political environment within and between the states so desiring to get into regional integration. Hence, the challenges and opportunities of regional integration in the Horn of Africa will have to be viewed within this context.

The Horn of Africa enjoys a great historical significance and it possesses an immensely important strategic zone flanked by the great Nile River, the Red Sea and the Indian Ocean. However, the subregion has been incumbered with equally immense political conflicts and socio-economic challenges.

1. THE CONCEPTUAL ISSUE

The Horn of Africa has been faced with the problem of definition while the "geographic", "political", "geopolitical" and "strategic" designations have unsettled what the Horn of Africa actually is. The "geographic" Horn is described as comprising Somalia, Djibouti and Ethiopia-Eritrea. The "political" Horn is conceived as inclusive of the countries forming a political landscape with shared crises and agreed commitments to collaborate towards averting and mitigating the crises. The proponents of "geopolitics" wish to see the subregion as a continuum of the space between the Nile and the Red Sea/Indian Ocean. This particular conception is like a reminiscent of Mohammed Ali Pasha's "mare nostrum" or King Farouk's "unity of the Nile". The strategic concept of the Horn has recently been advanced by the United States agencies aspiring to create "the Greater Horn of Africa" to include the "geographic Horn, the "political" Horn and the "Great Lakes regional" states of Burundi, Rwanda and Tanzania.

So far, only the "political Horn" concept has been translated into an organizational shape in 1988, culminating in the formation of the Inter-Governmental Authority on Drought and Development (IGADD, subsequently renamed as Intergovernmental Authority for Development-IGAD). More than anything, the establishment of IGAD was prompted by the 1984-85 drought and its disastrous effect, and Djibouti, Ethiopia, Kenya, Somalia, Sudan and Uganda are the founders of IGADD. Eritrea joined the organization upon its secession from Ethiopia in early 1990's. It was not difficult for the founding leaders to realize that one state alone cannot mitigate the looming calamities of the drought and the deep rooted economic problems faced by their respective nations. There was also an additional vision of the founders to use IGADD as a forum for Conflict Mediation in the sub-region. In this regard, IGADD achieved to bring Ethiopia and Somalia to a negotiating table. In May of 1988 the two countries signed an agreement which helped "normalization of relations" after the 1977-78 war. There was a political will-power and enthusiasm on the part of the leaders of member states to help one another and to work together not only to overcome the immediate problems but also to deal on issues of sustainable development.

2. AMBITIOUS TASKS

Having set up its headquarters in Djibouti, and having structured its organs, IGAD set out for an ambitious programme and plan of action which placed priority to: (1)
emergency drought relief measures, (2) drought recovery efforts, and (3) short-term and long-term socioeconomic development of the subregion. Projects designated for immediate action included the following:

On food security: embark on research into drought-tolerant and high-yielding crops.

On environmental protection: control pollution and provide environmental education at mass level to protect against environmental degradation.

On transboundary diseases: produce vaccines, control human and animal epidemic diseases.

On integrated water resources management: promote and improve the management of the transboundary rivers within the IGAD subregion.

3. DEPENDENCE ON EXTERNAL FUNDING

The organization has a supreme organ consisting of heads of state and government; it has a council of ministers, a secretariat and an executive secretary. All programmes are approved by the council of ministers, and executed by the secretariat. Amidst the economic problems in all IGAD countries, the member states have not been in a position to financially maintain the organization’s personnel. It has always been difficult to finance the priority projects and the rest of the programme. The initial funding was made available by the World Bank and the United Nations Development Programme.

IGAD’s dependence on outside resources for the maintenance of the organization and functioning of its activities has been one of the fundamental predicaments. The potential significance of self-help and cooperation at the sub-regional level could not materialize with the unsustainable hopes and funding promises from outside sources. The combined effects of the deteriorating interstate conflict situations between member states and the post cold war global tensions adversely affected whatever potential of IGAD. The objectives of food security and harmonization of interstate policies for the envisaged socioeconomic development are far from being attained. Any renewed or additional support for IGAD’s rejuvenation will depend on the organization’s ability to retune itself to the interests and satisfaction of those outside actors with finances and political influence.

4. INTERSTATE CONFLICTS

Rejuvenated or not, IGAD will remain caught up in the reality and the legacy of the interstate and intrastate conflicts. The unabated conflicts at interstate and intrastate levels can be taken as the causes and catalysts of the endless cycles of droughts and ecological decline which, in turn, resulting in the obstructions of economic development and perennial food shortage.

During the past four decades of post-colonial period the Horn of Africa has been the scene of interstate conflicts. This has eclipsed the bilateral and multilateral cooperation between and among the states in the sub-region. Somalia’s non-recognition of pre-independence boundaries and her territorial claims from the three neighboring states have acted as an unsettling factor. As a result two conventional wars were fought (1964-65 and 1977-78) between Ethiopia and Somalia. There has not been any bilateral agreement to resolve the territorial question involved. Since the May 1998 agreement on the "normalization of relations" between Ethiopia and Somalia, another war has not happened between the two countries. But the cause for the previous two wars has not been resolved. The territorial questions between Somalia and Kenya as well as between the former and Djibouti have always been delicate and not resolved in any final form.

The thirty years civil war in northern Ethiopia ended in Eritrea’s secession in 1991. It appeared that a peaceful relation was established with the new state. But war broke out between Eritrea and Ethiopia in May 1998. To date, the war continues unabated. Eritrea’s squabbling with the neighboring Sudan and Djibouti has not been resolved in earnest. Uganda and Sudan have frequent skirmishes on their mutual borderer zones, often caused and fomented by the rebelling opposition forces of the two states.

5. INTRASTATE CONFLICTS

The conflict map of the Horn is much more complicated than what has just been described. Perhaps, with the exception of Kenya, there are one or several opposition forces in all countries of the Horn operating with armed struggle against the regimes in power.

The first civil war in Sudan started already in 1955 and ended in 1972 with the negotiated settlement between the Southern liberation forces (Anyanya I) and President Gafar El-Nimeiri’s government. After another ten years of peace the civil war relapsed in 1983 which is still going on unresolved. At the moment there seems no light in the tunnel for the Sudanese civil war which is propelled by two contending forces; Islamist Pan-Arab nationalists in the north and African nationalists of variegated groupings in the South.

The rebellion in Somalia resulted in the overthrow of the Said Barre regime in 1991, resulting in the emergence of the Somali land Republic in the north and proliferation of war-lords in the South. In Somalia, there is no unified government, nor are there peace and order. The warlords in the south are engaged against one another in inconclusive show downs. In the north, the self-proclaimed
government of Somaliland has not gained recognition by any state, including those in the Horn. The fraction of sovereignty it might possess is far from legally enabling the Somaliland republic to enter into official interaction in the sub-region.

In Ethiopia, the coalition of opposition forces overthrew the Mengistu regime in 1991 after 17 years of armed operation. Some of the older opposition forces remained outside the new regime, and others returned to the bushes to take up an armed opposition with the new regime. The previous regime was overthrown by an armed opposition, more or less in the same drive the new regime is engaged in dealing with its own armed opposition.

In Djibouti the Afar-based Front for the Restoration of Unity and Democracy (FRUD) has put up an armed opposition to what is perceived as an Issa government under People's Rally for Progress (PRP) Ismail Omar Guelleh has been elected in March 1999 to replace president Hassen Gouled Apostion. The same party continues to remain in power so also the old opposition has shown to remain operating in the old way*.

In Uganda the National Resistance Movement (NRM) came to power by overthrowing the Obote regime but the NRM government is forced to live with the "Lord's Army" operating from the north in the country.

In Eritrea, the EPLF government has been unable to take on board its assorted rival organizations during their fight against the Ethiopian state. Old rivals are now the opposition operating against the new regime from the neighboring countries.

The interstate and intrastate conflicts most characterized the behavior of regional politics of the Horn. Such is the political environment that offers the greatest challenge to the Intergovernmental Authority for Development. Moreover, most opposition forces seek haven in the neighboring countries. There are numerous instances where the opposition forces operate in alliance with the host states and with their commissioning. Often the interstate and intrastate conflicts are interwoven and further complicate the political scene of the sub-region.

6. CONFLICTS UNRESOLVED

The conflict resolution objective of IGAD between and among the member states is a long way off. Conflict in Sudan and Somalia were attempted to the best level of the organization's ability. But the fact on the ground shows that there is a very little achievement if any. While the organizational goodwill exists at formal levels, IGAD does not have the clout and the necessary abilities to deal with the interstate and intrastate conflicts. It goes without saying, for instance, the ongoing conflict between Ethiopia and Eritrea is beyond the scope and caliber of IGAD.

7. CHANGE OF POLITICAL REGIMES

In the majority of the Horn countries political regimes are changed by means of force. The new leadership being along their own perceptions, ideologies and policies. It takes quite some time for other member states to go along with the new perception and policies. Quite often mutual misunderstandings overtake what ever preexisting and the fragile cooperation. It has been often difficult to operate on the mutually acceptable grounds of policies and interstate relationships. It has been observed that identical relationships turning around to overt hostility and open conflict. Any meaningful cooperation and regional integration will have to be supported by the political views, ideas and policies which are mutually cherished, and whereupon the member states will have little risk to invest effort and resources.

8. ARE THERE OPPORTUNITIES OF REGIONAL COOPERATION IN THE HORN OF AFRICA?

There exist immense and untapped opportunities for interstate collaboration in the sub-region. IGAD can be maintained as a diplomatic forum for the regional states where they can continue to get together and communicate their mutual concerns. But more realistic associations will have to be sought on the ground of mutual interests related to cross-border resources, transboundary human settlements and common aspiration and agenda of development. On the ground side of all these, the sub-regional governments must finish learning how to co-exist with one another.

(I). Cross-border Settlements: Invariably, all countries of the Horn have sizable populations whose permanent homes are on both sides of the political boundaries. It makes a lot of sense and indeed it is incumbent upon the neighboring states to work together for the welfare of those communities. A collaboration in such endeavours will have impetus to set the states to look for more areas of collaboration rather than attempting to use those communities against neighboring states.

(ii). Cross-border Grazing: The countries of the Horn have their pastoral communities usually in the border areas. In most cases, the pastoral herders straddle across the international boundary lines by the seasonal necessity of grazing and watering resources. The pastoral production system requires an extensive use of grazing territories and cyclical transhumance. Pastoralism can be positively rationalized through interstate collaboration with the aim of maximizing the mutual economic benefits to the concerned countries. Cross-border disease control, livestock market development, joint
research and information centres can be the most basic levels of interstate collaboration.

(iii). Wildlife and Game Resources: The livestock and the wild animals straddle across the interstate borders in search of feed and watering points. From cultural point of view, the pastoral communities of the cross-border areas would believe that the wild animals are the symbols of grace. For centuries, the livestock and the wild animals lived side by side surviving on the same natural resources. Even the seasonal hunting is done sparingly and most selectively.

Nowadays, the wild animals have become points of attraction, among other things, for tourism. Countries have responded to this by creating parks and game reserves within their territorial jurisdictions. The neighboring states can collaborate on a variety of joint projects which enhance mutual economic benefits accruable from tourism. An interstate collaboration on cross-border wildlife conservation and management for tourism industry will positively influence towards mitigating the interstate conflict in the Horn. A driving effect of such collaboration will greatly enhance the conservation of bio-diversity at the sub-regional level.

(iv). Cross-border Water resources. There is no one single country in the Horn of Africa that does not share water resources with one or several of its neighbours. Although the countries find themselves as upstream or downstream locations, there is an absolute need to collaboratively utilize the water resources. It must be reckoned that the transboundary water resources are the natural bonds between the riparian countries and it cannot be destroyed or altered. The neighboring countries will not have the options not to collaborate on these shared resources. Irrigation, hydropower production, inland navigation, fishing, resort development are the major areas where the up-streamers and down-streamers can collaborate. In the Horn, there is no single project where riparian states jointly own on their shared water resources. More frustrating is that there are no riparian agreements in place for future collaborations.

In conclusion, the IGAD’s 13 year experience is most telling that the interstate and intrastate conflicts have played obstructive role against a regional integration. It is unlikely that the states in conflicts can cooperate and genuinely work towards regional integration.

The governments must come down to concentrate on available, simple, and manageable projects of mutual benefit at bilateral, multilateral or sub-regional levels. Tangible and more permanent benefits must be the driving force for interstate cooperation. The shared resources like transboundary waters, grazing resources, wildlife, tourism and bush-markets can be the starting points of interstate collaboration. When these modest, small scale and tangible joint endeavours are firmly grounded, it can be hoped that they can grow and develop to a regional integration.

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The power industry in the country is characterized by governance problems, where policy making, ownership, and operational activities were vaguely defined with apparent lack of clear objective and legal and regulatory framework to provide limits between regulatory responsibility, ownership, and management of the industry.

The industry has been structured with monopolistic responsibility virtually closed to private capital. The management of the industry has not been provided with an autonomous status and, therefore, ministerial involvement in operational areas was a characteristic phenomenon.

The performance of the industry has suffered from efficiency problems with regard to human, material, financial, information, and customer service management. As a result, over the years, there has been service degradation.

The investment capability of the sector which has been eroded from poor financial performance was the cause of large-scale capital injection into the sector by government. This brought about budget burden and strain on government expenditure on other needy sectors. The principle of commercialized operation which had not been clearly integrated in the operation is the source of distortion of prices causing resource misallocation, and unfair income distribution.

The power market is characterized by high supply cost for a return less than the service value, where unbalanced expansion against the capacity prevailed. The generation facilities have been obliged to run without sufficient reserve margin and planned maintenance and this sometimes led to frequent unplanned outage and high cost of operation. For similar reasons, power transmission and power distribution system capacity has not been adequately developed. These have, therefore, been the causes of transmission and distribution capacity and reliability problems. Particularly the distribution system has been most affected by efficiency problems manifested in power loss, supply reliability and delay in customers connection.

For lack of financial motives and integrated promotional effort, end-use efficiency is generally low imposing additional factor for power service problem at the up-stream supply structure.

Because of lack of properly defined responsibility, financing strategy and approach for rural electrification, the service offered is now is far less than the potential requirement and share similar problem that pertains to power distribution service in the large market centers.

With a view to combating these problems, over the years sector reform process is in progress after a general reform approach where sector objective is broadly outlined followed by performance assessment.

It is in view of the result of this assessment that remedial course of action, much of which has to do with the governance of the industry has been defined. Accordingly, within the broader framework of the economic policy and the investment law the state role in power sector development and the level of private participation in the business is established. The energy policy among others has added enhancement to the principle of efficiency pricing and energy efficiency in production, transportation, distribution and end-use level. Further, framework for economic regulation has been instituted by law.

At the industry level, to provide accord to the limits of the enabling situation created by these provisions, restructuring has been going particularly with regard to system development.

Some critical aspects of the industry, particularly tariff, has gone through a series of revisions over the past few years in order to bring rates closer to marginal cost level, and reversing distortions long-residing in the tariff system. With regard to supply systems to increase generation capacity, promote efficiency at supply and end-use level under the framework of commercialized operation, where the financing is stipulated to be either Independent Power Producers (IPP or internal source from operation, long-term loan and equity investment) has been outlined by way of upgrading, rehabilitating and automating system operations. Human resource development approach compatible to this requirement has been outlined.

With regard to rural electrification, even though no clear definition of responsibility is established, it is to be pursued under the commercial principle and when this is not the case under subsidy from...
Economic Focus

HAS THERE BEEN ENOUGH FOR A REFORM?

In view of the sector's problem ranging from governance to operational efficiency and financing, the reform measures are clear attempts to address these shortcomings. Public ownership has been preferred with the possibility of incremental privatization of the incoming generation facilities within the main system. Equal opportunities, on the other hand, have been given to both public and private sectors to develop the industry in what may be taken largely as rural regions. However, it is now too early to judge the efficacy of the measures taken as basic elements of the new framework is yet under development.

But what may be irreversible is that there has been a move from the old traditional institutional setup with the objectives of providing governmental regulatory service, management autonomy and commercial operation hitherto unknown to the power industry. Effective integration of these for the overall performance improvement of the sector would require to maintain consistent follow-up in the preferred direction viz:

Corporatization, Commercialization and Management Autonomy: To institute commercial autonomy and independence in utility operations, under circumstances where experience with independent public institution is rather limited, transparent and impartial regulation will be required. Where the latter is not yet sufficiently established, probably this might remain to be a challenge and, therefore, this area has to be persistently pursued for a fruitful result in reversing perhaps a good part of sector problems and bringing the benefit of the reform into reality. Prospects of the sector's development along the line pursued would also require macroeconomic stability. From the point of view of experiences around the subject and relevant global and regional development, this ongoing process may be analyzed to figure out the most probable effect in view of the objective set out for the reform and put up a sketchy idea for the course of action awaiting the future. Major factors that may be required to be incorporated in the continuing reform effort are taken up here under. The following paragraphs, therefore, are written along this line and may be summarized by the following statement. Long-term development of the sector lies in: concretizing the industry principle, and conscious integration of global changes and financing prospects in industry organization; regulatory design along the line of independence, transparency and less regulatory discretion and a strategy to gradually move to a competitive market by way of open access arrangement in the transmission and distribution business and competitive dispatch and competitive supply at the generation and supply level, respectively.

FINANCING

From the national point of view, the burden of public monopoly on public finance has been very strong which required a shift in the financing strategy as it is also given emphasis in the reform which includes private financing in generation at a competitive procurement. This appears to be one of the major motives of the reform. The power market forecast (ceteris paribus) indicated that there will be growing need of additional capacity over and above those already committed. Up to year 2016 more than 700 MW capacity addition will be required. Financing of this and the related transmission and distribution capacity is likely to be high on the agenda. This will be true not only for the case of Ethiopia but also for other developing countries as some studies indicate that in the coming decade from the potential power financing requirement of developing countries, multilateral or bilateral or Bank source may be able to cover only 17% and the rest has to be sought from domestic and other sources.

This would put private financing as the most important remaining source which only responds to most attractive regulatory environment in particular and is to be won under fierce competition among countries in dire need of private financing. Development in Asia indicates institutionalization of private financing required establishment of a transparent and independent regulation and sector reform, pure commercial principles, and overall good macroeconomic performance and stability. Independent Power Producers (IPP) financing itself has never been easy and requires efficient risk allocation among the contracting parties. Where usually the purchaser takes demand risk and the supplier construction and operation risks. IPPs also require commitment to a commercial management of the purchasing utility subject to an independent and transparent regulatory mechanism. This condition is tantamount to building an institutional framework where ownership, operational and regulatory role of the state established with a guarantee against possible compromise with short-term political interest; perhaps the most feared regulatory risk by IPPs. These have preceded any known successful IPP financing. Where this is not the case IPP financing is either less probable or would be expensive than it would have otherwise been because of stringent terms such as investment guarantee requirements.

As the existing framework precludes IPP from direct participation in the market in the main national grid (the Inter Connected System, ICS), all market risks are to be borne by the purchasing util-

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Vol. 3 No. 1 / Feb-Mar 2000

Economic issues/information

Ethiopian Economic Association
ity. In the event of IPP participation, the issue of open access arrangement is likely to surface for reasons of risk minimization and therefore the need for increasing the depth of the reform. The urge and desire to develop the hydropower endowments is understandably clear and so is officially articulated and has been the adopted strategy. However, hydropower development usually involves cost overrun because it is not possible to standardize the development cost as it is the case with thermal generation. Risk factor, therefore, is high on the side of IPP. Developments indicate that IPP financing has dominated thermal generation particularly that of gas fired combined cycle systems which generally involves lower construction risk and construction period compared with the hydropower plants.

INTERNATIONAL MARKET

The reform might need to take into account the growing trend in regional interconnection which now is highly concentrated in south, central and some parts of east Africa. The feasibility range of this is not to be underestimated, when the world is very much in favor of it and by many who has gone through a reform has formally recognized it as important market stabilizer and efficiency catalyst and therefore included in the arrangement of open power market principle.

Behind the idea of developing Trans-African power transmission, there is a very good reason to expect it to be materialized as primary untapped power source is abundant. While the present legal framework does not put any restriction on import or export, the development of the hydro resources, is also dependent on the regulatory environment. Therefore, the pressure to engage in large-scale and long-term power procurement appears to be a possibility demanding attention much in the direction of being part of this development by providing attractive and convincing scenarios for the unlimited (as stipulated in the investment amendment law) development of the hydropower for possible export via regional interconnection. This should also require reforming the internal market structure. Regional interconnection is known for its merit in reducing system costs, through shared reserve. For those reasons, the future appears to hold strong economic motive and pressure in favor of regional interconnection and possibly more strong, than the politically motivated indifference or negative will. The need for regional interconnection might be more popular after the sector reform that has swept across the region (the minimum common emphasis being autonomous management and commercialization which is likely to bring profit maximization at the front) and therefore even firm power trading via regional interconnection.

REGULATORY INSTITUTE

Further improvement in the regulatory design probably needs to figure at the heart of the reform and be compatible to the needs of inflow of private capital. Regulatory independence has to be further worked out at best away from the present ministerial regulation by way of organizational separation from the ministerial portfolio or at least by developing regulatory contracts in the area of operation and pricing to a level of legislation. Regulatory independence ought to be established against political influence, corporate business influence and budget restraints. The regulatory system has to recognize and define a step by step procedure clearly addressing all problems related to: commitment and enforcement of commitment in regard to parties in the business. This is usually related to the disposition of demand risk for the utility particularly in the event when the problem is a result of unforeseen development at macro level. From experience, this has been the source of dispute which either increases cost of private financing or altogether frustrates its prospect in the face of growing competition for winning IPP. Therefore, legal regulatory framework and regulatory capacity to administrate such developments in the event that this will be required.

ADDITIONAL VALUE IN COMPETITION

The long-term successful development and performance of the industry, in addition to the above factors, will also depend on a conscious development of industry environment along the line of competition at generation level above competitive procurement to competitive dispatch, and at supply level for bulk customers to be exposed to open access of transmission and distribution arrangements. By opening access to the market, IPP will be required to bear the market risks which would probably soften demand risk for the purchasing utility.

The distribution function which as it is now become cumbersome and a characteristic of efficiency problem, even for a very low penetration, is likely to continue to be a source of problem for remoteness of excessive resource and effort required in managing the ever-growing system across the country. Therefore, proper long-term action may be a gradual transfer of property right to the public municipality and/or private sector with interim preparatory period devised by way of either management or operations contract or such other means. Such transfer may be arranged gradually beginning from the small systems while the big systems may be maintained by the utility until local operational capability develops. Yardstick competition and/or bench marking may then be best instituted via price capping as is commonly practiced in the reformed utilities.

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Vol. 3 No. 1 / Feb-Mar 2000 34 Ethiopian Economic Association
RURAL ELECTRIFICATION

Rural electrification would require a separate effort to promote non-conventional means until a time when conventional means become viable. For this purpose, under the proposed structure, a portfolio responsibility might need to be identified and instituted as a ministerial mandate. Where the conventional means require subsidy, the subsidy from government or community level might be allocated upon evaluation of the additional fund for network construction, for the part that may not be recoverable after construction and commercial operation of the system. The subsidy has to be looked at in terms of development cost and not power or energy tariffs that should be offered on competitive tendering basis.

END-USE EFFICIENCY

End-use efficiency problem to a 400 MW system now operated may not be as important as what may be the case under a large system. However, the level of saving from efficiency in any power industry largely appears to be cost-effective and, therefore, has to be pursued with the necessary institutional backups. The future demands integrated effort in this direction ranging from institutional supports, efficiency codes, tariff reform to utility driven promotional programs. Persistent tariff principle as outlined above should be able to work out the remaining part of end-use efficiency by putting up sufficient commercial pressure on business operators and large section of the customers.

Finally, for a concluding note, in an attempt to indicate what the future holds to the industry, one writer puts it:

"The idea that electricity is the epitome of a local business plant built in one country or region, to serve customers living and working in that country, paid in local currency and regulated by the local political structure is outdated. As a result of global competition, customers demand and competition for capital, regulators primary function is to ensure that power is made available in the most effective manner possible. This may seem to be a little bit exaggerated perhaps in terms of timing but nevertheless is a fair indication of the future to warrant attention for what could be a long-term achievement depending on the particular circumstances."

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3 Experience in Bolivia proved to be successful in rural electrification under such arrangements. Payments of Infracton from utilities & customers often used to finance such schemes with additional government allocation.

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4. **Theory and Practice of Modern Public Finance** (Basic concepts)

4.1. **Theory and Practice of Modern Public Finance** (Tax Base) is very important in the context of modern public finance theory.

A tax base is the measure of the amount of income or wealth that is subject to taxation. It is an important concept in modern public finance theory because it determines the extent to which taxation can be used to raise revenue.

The income tax is one of the most important tax bases in modern public finance theory. It is a progressive tax, meaning that the tax rate increases as the taxable income increases.

4.2. **Progressive Income Tax**

A progressive income tax is a tax system in which the tax rate increases as the taxable income increases.

Balanced budget is an important concept in modern public finance theory. It is the condition in which government expenditure is equal to government revenue.

5. **Discussion**

Discussion on the economic impact of tax policies is an important aspect of modern public finance theory. It is crucial to understand how tax policies affect economic growth and development.

**Notes:**

- Economic Focus: This section provides an overview of the current economic issues and information.
- Economic Issues/Information: This section discusses the theoretical and practical aspects of modern public finance theory.

**References:**


**Vol. 3 No. 1 / Feb-Mar 2000**

**Ethiopian Economic Association**
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**QUOTABLE QUOTES**

Free trade, one of the greatest blessings which a government can confer on a people, is in almost every country unpopular. 

Economic progress, in capitalist society, means turmoil. 
Joseph Schumpeter 
*Capitalism, Socialism and democracy*, 1942.

Social prosperity means man happy, the citizen free, the nation great. 

There is inherent in the capitalist system a tendency toward self-destruction. 

The very essence of competitive commerce is waste, the waste that comes from the anarchy of war. 

Political institutions are a superstructure resting on an economic foundation. 
Vladimir Ilyich Lenin 
The Three Sources and Three Constituent Parts of Marxism, 1913.

Commerce is the greatest of all political interests. 

Recession is when your neighbor loses his job. Depression is when you lose yours. And recovery is when Jimmy Carter loses his.

Prosperity is only an instrument to be used, not a deity to be worshipped. 
Calvin Coolidge, speech, June 11, 1928.

The reality is that zero defects in products plus zero pollution plus zero risk on the job is equivalent to maximum growth of government plus zero economic growth plus runaway inflation.

If the unemployed could eat plans and promises they would be able to spend the winter on the Riviera. 
W.E.B. Du Bois 
"As the Crow Flies", *Crisis*, Jan, 1931.

True wealth is not a static thing. It is a living thing made out of the disposition of men to create and to distribute the good things of life and rising standards of living. 

True individual freedom cannot exist without economic security and independence. People who are hungry and out of a job are the stuff of which dictatorship are made. 
Franklin D. Roosevelt 
Message to Congress, Jan 11, 1944.
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