GLOBALIZATION – ITS PROMISES AND PERILS TO THE ETHIOPIAN ECONOMY

Amdetsion GebreMichael

1. INTRODUCTION

According to the World Bank, among the Sub-Saharan countries, Ethiopia has liberalized its economic policies the most. Non-tariff barriers have been eliminated and tariffs have been progressively reduced on a wide range of commodities. The maximum tariff rate has been reduced from 230 percent to a maximum rate of 35 percent in January 2003. The simple average tariff rate has also been reduced from 79.1 percent to 20 percent, and the weighted average tariff rate from 41.6 percent to 17.5 percent (MFED).[1]

The country also enhanced the role of the private sector through lifting investment restrictions (such as licensing, investment capital ceiling). Other policy reforms included the abolition of market control mechanisms such as pan-territorial fixed prices and compulsory quota delivery by farmers to public trading enterprises; privatisation of small, and medium-size state-run enterprises; opening up the financial sector (banks and insurance) for private participation; and relaxing of exchange rate controls.

In spite of the liberalization policies, Ethiopia is still among the marginalized low-income developing countries in the ongoing liberalization process. The country has not benefited from international trade or from attracting significant flows Foreign Direct Investment (FDI). The country's exports remain basically primary commodities, with coffee alone accounting not less than 50 percent of total foreign exchange earnings. With the declining trend of primary commodities, especially coffee, in the international markets, the country's terms of trade has been declining and the gap between export earnings and import expenditures on goods and services widened from US$ 621 million in 1992 to US$ 1.09 billion in 2002.

FDI flows to the country remain at a depressingly low level. Annual average FDI flows to the country amounted to only US$ 218.5 million for the period 1997-2001. According to UNCTAD's FDI performance index which ranks countries by their

[1] Ministry of Finance and Economic Development & Customs Authority

performance in attracting inward direct investment and their potential thereof, Ethiopia ranks among under-performing countries.

Drawing upon available empirical studies and based on Ethiopia's experience, this paper attempts to show that liberalization per se is not a sufficient condition for a developing country to benefit from globalization. This paper argues that Ethiopia has to accelerate its economic development and to diversify its exports to enable itself to be an active participant in the globalization process and to benefit from it. To achieve an accelerated development requires concerted efforts to enhance the productivity of small farmers, and to promote private sector investment, both domestic and foreign. The role of the private sector in accelerating development is critical, and the constraints which rendered the sector's performance to be lackluster so far, need to be addressed.

The paper reviews, first, the new aspects and the main features of the current globalization process. Second, it discusses the conditions under which "openness" or liberalization makes developing countries "winners or losers" in the process of globalization. Third, after assessing the performance of Ethiopia in the globalization process, the paper considers the promises and the perils of globalization to the Ethiopian economy.

2. WHAT IS NEW ABOUT THE CURRENT WAVE OF GLOBALIZATION?

In its broader context globalization can be defined as a process of closer interdependence and integration among countries and peoples, facilitated by the enormous reduction of costs of transportation, communication and policy barriers to the flow of goods and services, capital, and knowledge (Stiglitz).

The process of globalization is not a new phenomenon. It has been an on-going process throughout history – a process which changes its speed and character with the advent of new communication and transport technologies (World Bank 2002).

One of the factors that make the current wave of globalization unique is that it has been taking place side by side with immense technological advances - especially in the field of communication - which has made its speed of expansion more rapid than in any period in the past. It has also been taking place within a global policy environment where nearly all countries at all levels of development have made

reforms to reduce or remove policy instruments that influence cross border trade transactions and financial flows.

In most of these countries, policy reforms have led to the strengthening of the role of the free market and the private sector. At the same time the role of the state in managing national economies was reduced. Such policy reforms, which were undertaken often as part of structural adjustment programmes, such as deregulation (removing restrictions on foreign investment, opening up of financial sectors) and liberalization of macroeconomic policies (interest rate, exchange rate, and fiscal policies), created a favourable environment for the free flow of foreign private financial and investment capital not only to productive sectors but also to such sectors as banking, telecommunications as well as provision of utilities, which traditionally had been reserved for public autonomous agencies (UN 2000). The extent of institutional and policy reforms, however, varied from country to country.

Globalization has also been taking place in an environment where the developed countries have maintained high tariff levels on agriculture and processed labour intensive products that constitute exports or offer a potential for export diversification in developing countries.

In addition to tariff and non-tariff barriers that hinder access to markets, agricultural subsidies by developed countries whether in the form of direct export subsidies or direct payments to farmers, also deter exports from the developing countries. Total annual support for agriculture in the OECD countries is estimated at about US$ 318 billion double the value of agricultural exports from developing countries (FAO 2003 a). The World Bank estimates that protection in the developed countries costs developing countries more than $ 100 billion per year, twice the total volume of Official Development Assistance (ODA) which stands at about US$ 50 billion per year. (World Bank 2000). Interestingly, agriculture in Africa, despite being the primary source of income, employment and food security, is currently one of the most liberal and subsidy free in the world (UN 2000).

The impact of the current globalization process has been uneven with the benefits of increased trade and FDI flows concentrated in some countries, while the majority of the developing countries remain marginalized by the process. The causes of the asymmetric nature of globalization in its benefits and risks remain a subject of wide controversy.

3. MAIN FEATURES OF THE CURRENT WAVE OF GLOBALIZATION

3.1. Impact on access to information and knowledge

One of the main features of the current globalization process is the on-going rapid exchange of information and knowledge among countries and people, facilitated by the recent technological advance in information and communication via, for example, internet, e-mail and satellite television. While the economic and social impacts of globalization continue to be a subject of wide controversy, there is a general consensus that, despite the “digital divide” between developed and developing countries, the benefits of globalization in enhancing access to knowledge and information have been generally significant in many developing countries.

Technological progress in the field of information and communication and the arrival of the internet and electronic communication has offered developing countries considerable opportunities for acquiring information and knowledge at a faster rate than in the past (Stiglitz). Internet facilities have brought to the door steps of students, researchers, and policy makers the world over, books, articles, research findings etc. thus facilitating the exchange and expansion of knowledge among peoples and institutions. Electronic professional conferences are now more common, and people are no more limited by distance to exchange ideas and to learn from each other.

With the coming of satellite and internet facilities, the speed at which information on current political and social issues in different countries is communicated to the rest of the world has been considerably increased. The links forged by improved communication facilities among various associations (human rights groups, advocacy groups for the weak and the poor, for reducing debt burden, conflict resolution and peace building, and associations of various professional groups such as journalists) have also enabled such groups to build strong solidarity in their respective missions such as fighting against injustice, oppression and discrimination and, by so doing, to strengthen democracy and good governance in situations where they do not exist. Globalization in the area of communication through facilitating endeavours to strengthen democracy, social justice and human rights –foundations for good governance and public accountability - also contribute to creating a favourable environment for accelerating development and the eradication of poverty.

Satellite television and internet facilities have also facilitated quick transmission of information on dangerous human and animal diseases such as the recent emergence

of diseases (SARS and bird flu, mad cow disease, etc), allowing countries to prepare in time control mechanisms to prevent such diseases from crossing into their territorial borders. On the negative side, globalization has also contributed to a fast spread of many forms of crime such as drug trafficking, terrorism, money laundering, organized crime, corruption, illegal human and trafficking especially of children. Computer related crimes are also becoming more global in nature (UN 2000).

3.2 Economic and social impacts

A World Bank study shows that with globalization the magnitude of world trade and capital flows have increased considerably. The share of manufactured goods in developing countries' exports rose from less than 25 percent in developing countries' exports in 1980 to more than 80 percent by 1998. The study also shows that in the developing countries since 1980 the number of the poor has fallen by an estimated 200 million. In aggregate life expectancy and schooling have been rising in the developing countries, and that income inequality has also stopped widening and "may have started to fall" (world Bank 2002). The progress in these economic and social indicators was concentrated in selected countries notably China, India, Vietnam, and Uganda among others.

In aggregate FDI flows to developing countries increased from US$ $25 billion in 1990 to US$ 225.8 billion in 2000 (World Bank 2003 a). The increase reflected outsourcing of the production of manufactures, and services by multinational companies and other firms to developing countries where costs of production were relatively low. Of the total FDI flows, 70 percent went to six countries[2], with China alone accounting for more than 26 percent. By comparison FDI flows to Sub-Saharan Africa amounted to only US$ 7.1 billion in 2000 representing only 3.1 percent of total flows to developing countries.

The World Bank study mentioned above also indicates that the majority of the developing countries, which were not "participating in globalization", are becoming marginalized. The aggregate growth rate in these countries was negative in the 1990s, and their share in the world declined (World Bank 2000). The share of the least developed countries in world trade for instance declined from already an insignificant level of 0.4 percent in 1989 to 0.2 percent in 1997 (World Bank 2000).

As already mentioned, the economic and social impact of globalization in developing countries is a source of strong controversy. The proponents of globalization maintain

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[2] Argentina, Brazil, China, Korea (Republic of), Mexico, and Poland

the view that globalization would lead to economic growth and poverty reduction if only countries open up their economies through liberalization and dismantling of trade barriers. This is based on the classical theory that free trade generates considerable gains to countries by allowing each to specialize in areas in which it has comparative advantage, and from access to larger markets. According to this school of thought, as low income countries get access into global markets for manufactures and services, specialization according to comparative advantage in a typical labour surplus developing economy would raise demand for labour intensive products. This would create employment and income opportunities for the poor and would allow them to move out from the vulnerability to grinding rural poverty to better jobs often in towns and cities.

The anti-globalization view, on the other hand, questions the merits of globalization. The main argument is that globalization is harmful to developing countries, and has exacerbated income inequality across countries and within countries. According to the anti-globalization movement, globalization is a process which makes the rich richer and the poor poorer.

The reality concerning the impact of globalization is, however, less straight forward than the views advanced by the supporters of anti-globalization and the neo-classical view that openness of the economy in terms of dismantling trade barriers and liberalization is adequate for developing countries to benefit from globalization. A number of empirical studies have shown that the extent to which developing countries could benefit from globalization varies with the stage of development at which a country engages itself in the globalization process. Empirical studies have shown that broad based economic structure, well developed industrial capacity, diversified export pattern, availability of skilled manpower, and institutional and infrastructural facilities, good governance and conducive policy and political environment are essential preconditions for countries to be able to capture opportunities that the globalization process generates. Drawing on empirical studies, the next section of the paper discusses the conditions under which a policy of “openness” could be useful for developing countries to gain from globalization.

4. LIBERALIZATION[3] PER SE DOES NOT GUARANTEE GAINS FROM GLOBALIZATION

Wade (2004) and Birdsall have shown that liberalization does not necessarily lead countries to economic growth and poverty reduction. Many of the developing countries, despite opening their borders to international trade and investment, have failed to gain from the current wave of globalization. Among the obstacles inhibiting these countries to participate in the current globalization process and to stimulate economic growth include (i) a narrow export base limited to a single or few primary commodities; (ii) limited and inefficient industrial capacity (iii) inadequate or dysfunctional infrastructure capacity and (iv) shortage of managers, engineers and technicians. Poorly developed human and institutional capital, and debt burden also affect the capacity of developing countries to participate in the global market.

The study by Birdsall (2002) shows that most of the developing countries have been ‘open’ for more than two decades, but with the value of their exports stagnating or even declining over the past two decades, showed no growth at all since 1980. Their economic growth rates in 1970s and 1980s have also been lower than those of least commodity-dependent countries. According to Birdsall, in situations where initial political and economic institutions are relatively weak, natural resources based production systems appear to encourage “predatory government behaviour and rent-seeking and to discourage development of predictable, stable, democratic institutions that are conducive to growth.” Such systems provide poor incentives for human capital investment, discourage learning by doing, and have limited possibilities for diffusion of knowledge and increasing use of technology, compared to industry-based production systems. The performance of most natural resource production-based countries in terms of growth and poverty reduction was unsatisfactory; no matter how “open” they were in their trade and economic policies. This does not mean, however, that these countries would have been better off with more protectionism; it only shows that lack of policy “openness” is not the constraint to economic growth.

The developing countries, which have benefited from globalization in terms of accelerated growth and poverty reduction, are those which have positioned themselves well in terms of their overall development performance, export patterns, skilled man power endowments, and institutional and physical infrastructural facilities (UN 2002). The good performance of countries like China, India and other developing countries, in terms of growth and poverty reduction, from engaging in more expanded

[3] Liberalization is the removal of government regulations in financial markets, capital markets, fiscal and non-fiscal subsidies and tariffs and non-tariff to trade.

trade and from investment flows over the past one or two decades was not totally attributable to liberalization of their policies per se. Among other factors, human capital in these countries was high making the transformation of their economies to manufacturing and services, as well as the overall development process faster. These countries attained a significant increase in the trend rate of GDP growth about a decade prior to liberalizing their trade and investment policies (Wade 2002). China and India and many of the others which have benefited from globalization, began to open their markets after building up a good industrial base and attaining fast growth behind high barriers, and still continue "throughout their period of so called openness" policies of protection and other restrictions (Wade 2002).

The recent experiences of China and India, (and that of Japan, South Korea and Taiwan earlier), also show that the structural transformation of the economies of these countries, and a significant part of their growth came from import substitution industries of consumption goods. As these countries replaced their imports of consumption goods with domestic production, they were able to devote an increasing share of their foreign exchange resources for imports of capital and intermediate goods, which provided further impetus for development. Once their manufacturing sector expanded, they reduced tariff and non-tariff barriers with the view to making industries more cost efficient and to induce them to improve the quality of their products. In the words of Wade (2004), these countries reduced tariffs and non-tariff to expose domestic producers to enough competition to make them more efficient "but not enough to kill them which is very different from the presumption that trade liberalization is a good thing and that the costs will be short-term as resources shift to more productive uses."

In the low-income developing countries where domestic industries are at an infant stage, increased imports often displace local products, leading to high operational losses and ultimately to a close-up of domestic industries. The results are often that fixed capital such as machinery gets scrapped. Industrial workers who lose their jobs and income may not find employment that easily, simply because the economies in these countries are not dynamic enough to recover quickly from economic mishaps. In these countries resources, once displaced, do not "shift to more productive uses" and the economic and social costs of closing local industries are likely to be more permanent than short-term. In addition, countries also lose the potential role of local industries to stimulate the overall economic and social development through linkages and multiplier effects.

The experience of countries which were successful in developing domestic industries also shows that import substitution and policies for enhancing exports and better

integration with the rest of the world are not incompatible but complement each other. A key factor, for the industrial sector in developing countries to achieve this dual role, is an appropriate government policy conducive to nurture competitive industries and upgrade technologies in existing industries, for example, through policies which encourage supply linkages between domestic firms and subsidiaries of multinational corporations. For instance, foreign firms which import locally manufactured products from a developing country may be encouraged to invest in higher technology process for improving the production and supply of the products they import, sooner than they would in free market conditions (Wade 2002). Such policies however have to be part of a comprehensive strategy which encourages the private sector to invest in import substitution and export oriented industries.

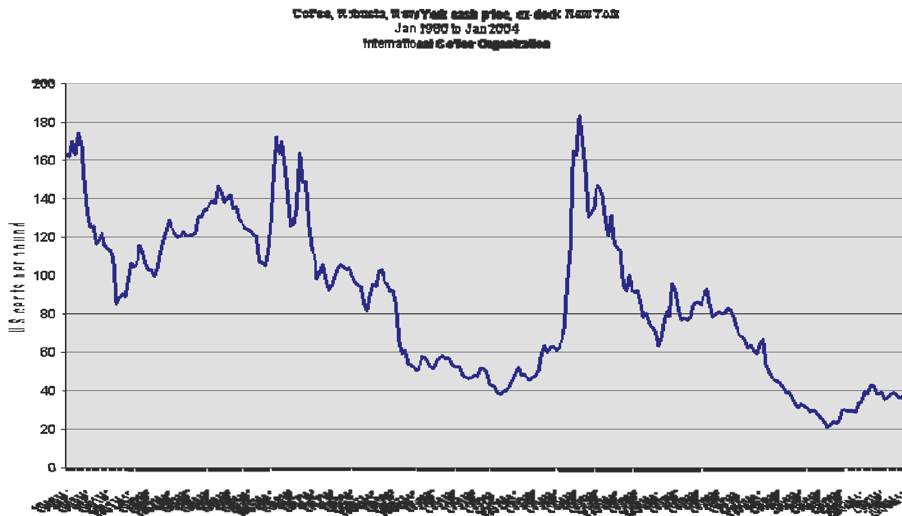
5. HOW IS ETHIOPIA FARING WITH GLOBALIZATION?

Among Sub-Saharan African countries, Ethiopia has liberalized its trade and economic policies the most. In spite of the significant degree of liberalization, however, Ethiopia seems to have benefited neither from international trade nor from foreign capital flows.

5.1. International trade

The absence of a dynamic development process and the lack of economic transformation in Ethiopia has contributed to the export pattern that has remained disappointingly dominated by primary agricultural products. Coffee, which alone accounts for more than 50 percent of the country's total export earnings, has been subject to a declining price trend in international markets especially since the 1980s. Coffee composite prices in the New York Market declined from a three year annual average of US$ 130.52 in 1980 -1982 to US$ 60.59 in 1990-1993. After recovering to an average of US$ 124.8 in 1995-1997, coffee prices have again declined to an average of US$ 48.4 in 2001-2003 – the lowest level since the mid-1970s.

Figure 1: below shows the fluctuations and declining trend of coffee prices in the international market during the period 1980-2003.



Source: IMF

In addition to the declining prices of primary exports, the country's foreign exchange earning capacity continues to be affected by the country's limited capacity to export manufactured products. While for the developing countries as a whole, the share of manufactured products in total exports expanded almost four fold during 1980-2000, Ethiopia did not succeed in increasing manufactured exports – the share of manufactured exports remained unchanged at an insignificant level of about 10 percent of the total value of the country's exports.

An export structure based on primary commodities - with predominance of coffee and limited capacity to produce and export manufactured products - has been the country's main constraint to take advantage of the opportunities created by the globalization process. Ethiopia was not also able to make full use of the free market access opportunities created by the United States "African Growth and Opportunity Act" (AGOA), the EU – African, Caribbean and Pacific countries (ACP) Agreement, as well as the EU "Everything but Arms" (EBA) initiative. The AGOA initiative offers duty free and quota free access for a wide range of manufactured products including textiles and apparel as well as leather products. Despite such duty free access and quota free provisions, Ethiopia's exports to the US market under the AGOA are insignificantly low compared to those of a large number of Sub-Saharan countries as shown in Table 1 below. The EBA initiative, which came into effect in March 2001,

with the exception of arms and munitions, grants duty free access and without quantitative restrictions to all imports from the least-developed countries.[4]

Table 1: Exports of selected African countries to the US market under the provision of AGOA (2002)

Country	Value of Exports ((US$ million)	Country	Value of Exports (US$ million)
Ethiopia	2.30	Mauritius**	114.00
Botswana	4.60	Mozambique***	5.90
Ghana*	35.00	Senegal	0.50
Kenya	129.00	Swaziland	81.00
Lesotho	318.00	Tanzania****	1.30
Madagascar	79.7	Uganda	0.32

Source: AGOA Implementation Report–May 2003
* Consists primarily chemical exports
** Includes textile apparel, sugar and electronic products
*** Mainly agricultural products
**** Mainly agricultural and forestry products.

With the declining trend of primary commodity prices in international markets, and rising trend in import prices the country's terms of trade declined from 100 in 1995 to 50 in 2001 (World Bank 2003). The gap between export earnings and import expenditure on goods and services widened from US$ 621 million in 1992 to 1.09 billion in 2002. The widening gap between export earnings and import expenditures is indeed unsustainable and in the long-run may lead to debt crises.

At the household level the decline of coffee prices in the international market has led to a sharp fall of income and well-being of coffee farmers in the country. Farmers reportedly are uprooting coffee trees and substituting them by chat, which as a mild drug is prohibited in many countries. With the exception of some countries in the Near East, chat will not have import demand in other countries.

With regard to imports, it is already noted that access to the Ethiopian market has been considerably liberalized. It is not however clear whether the changes in employment and wages in the country's manufacturing sector (shown in Table 2) are because of structural problems affecting the sector or as a consequence of increased imports because of liberalized trade policies.

[4] Liberalization under the EBA initiative was immediate except for three products, namely, bananas, rice and sugar. For those commodities tariffs would be gradually reduced to zero: for bananas in 2006 and for sugar and rice in 2009.

Table 2 below shows that between 1995 and 2001, the number of employees in the textile and related industries declined by about 7000, and in the foot wear processed meat, fish, fruits and vegetables, and grain mill products by a total of about 1100, thus worsening the unemployment problem in the country, already estimated at 40 percent. During the same period, wages per employee also declined especially in spinning, weaving and finishing of textiles, knitted and crocheted fabrics as well as grain mills products industries.

A study on the leather industry shows that the tanning and leather manufacturing industry runs at partial capacity owing to shortage of hides and skins coupled with poor quality standards. The paradox that leather manufacturing industries run at partial capacity because of hides and skins supply shortages while the country exports raw hides and skins, suggest policy inconsistency in relation to the sub-sector. Another paradox is that side by side with excess manufacturing capacity, the country imports about 30 percent of the total footwear supply. The ratio of imports in total footwear supply is increasing at a substantial rate (Berhanu Nega and Kibre Moges). Textile manufacturing industries also run at partial capacity owing largely to structural problems.

It is probable that the decline in employment and wages and salaries could be mainly due to basic structural problems such as inadequate supply of raw material inputs which make industries run at partial capacity forcing labour deployment and reduction in wages per worker. It is also possible, however, that imported goods because of liberalized trade policies could also have contributed to the problem of the shrinking of employment and income in the manufacturing sector.

Table 2: Employment, wages and related indicators - selected industries (at current prices)

Industry	Number of Employees		Shares of wages in value added (in %)		Wages per employee (in US)		Share in total manufacturing employment (in %)	
	1995	2001	1995	2001	1995	2001	1995	2001
Processed meat, fish, fruit, vegetables, fats	4903	4195	42	23	601	658	5.4	4.5
Grain mill products; starches; animal feeds	3769	3472	17	30	873	751	4.2	3.7
Spinning, weaving and finishing of textiles	27446	21345	46	41	625	558	30.4	22.8
Other textiles	3352	2766	33	58	442	538	3.7	3
Knitted and crocheted fabrics and articles	143	173	39	38	413	231	0.2	0.2
Wearing apparel, except fur Apparel	3962	3720	46	68	469	523	4.4	4
Tanning, dressing and processing of leather	3369	3742	19	32	1272	1209	3.7	4
Footwear	3666	3298	33	30	678	790	4.1	3.5
Paper and paper products	1362	1357	26	21	997	981	1.5	1.5

Source: UNIDO

So long as the problem of manufacturing industries remain structural, trade liberalization seems to be the wrong medicine for the wrong disease. The potential of the manufacturing sector, to contribute to Ethiopia's economic growth and to promote technological know-how and skills, could only be realized by solving the structural constraints that each industry is faced with. In the case of the leather industry, for instance, the measures to make the sub-sector dynamic and competitive have to start with improvement of the supply and reliable delivery of hides and skins both in quantity and quality.

Hides and skins are by-products, and the measures to increase the supply of such products need to be linked to the promotion of meat production and marketing both in the domestic and external markets. Export of meat, fresh and frozen, rather than exporting live animals would enable the country to gain not only from value added but also from increased supply of hides and skins for leather manufacturing industries. Among important measures to improve the performance of leather manufacturing industries include establishing quality standards and grades for hides and skins, introducing policy measures such as providing price incentives for high quality hides and skins, preventing livestock diseases in general and diseases which damage skins in particular, and stepping up training in appropriate methods of slaughtering and drying of hides and skins. In addition, measures to ensure reliable supply of hides and skins to domestic leather manufacturing industries would be useful.

The manufacturing industry including textiles and leather, which was initially developed within the framework of an import substitution programme, was highly protected from import competition. The policy had led to the expansion of the manufacturing sector - especially leather manufacturing. Part of the problem observed in the manufacturing sector including the deterioration of machinery and the lack of adequate supply of raw materials has been the result of the nationalization measures and the mismanagement during the military regime. (Berhanu Nega and Kibre Moges)

As far as the problems remain structural, the liberalization of non-tariff and tariff barriers per se will have no effect in improving the performance of manufacturing industries. Such measures are bound to be counter productive in a situation where domestic industries are mired with multiple problems such as deteriorating machinery, lack of raw material inputs, and lack of financial capital to improve technology. Unless the structural problems are corrected, manufacturing industries would not be able to increase production and improve the quality of their products to compete with imports. The removal of non-tariff and reduction of tariff barriers, by encouraging imports, would only lead to further reducing the capacity at which manufacturing industries are operating and perhaps from partial capacity to no capacity, with dire consequences of increasing unemployment and loss of income of industrial workers.

At this stage the priority issue appears the need to focus on rehabilitation of the existing industries and on promoting domestic and FDI investment in new manufacturing industries to make the sector more dynamic and competitive and to enhance its capacity contribute to growth and transformation of the economy through linkages and multiplier effects. A well designed labour intensive and domestic

agricultural raw material-supply-based dynamic manufacturing sector would provide growing employment opportunities including for rural labour, and would reduce unemployment and underemployment in the rural areas and reverse land fragmentation process which has become one of the major constraints to enhance productivity in the agricultural sector.

5.2. Foreign Direct Investment (FDI)

With the coming to power of the Dergue regime and the nationalization of domestic and foreign enterprises, FDI flows to Ethiopia, especially from private sources, had totally dried up for much of the 1970s and 1980s. Private FDI flows resumed in 1992 with the rather insignificant sum of US$ 200,000 and gradually picked up to a more modest level of US$ 288.5 million in 1997 – when international financial flows were at their peak. The annual average FDI flow to the country during the period 1997-2001 amounted to US$ 218.5 million (UNCTAID 2003 a), which is more or less close to that of Mozambique and Uganda but significantly lower than the figure for Tanzania (see Figure 2 below).

According to the World Bank, among Sub-Saharan countries, Ethiopia and Uganda are the two countries, which have liberalized most, but the chart below reflects that their performance in attracting FDI has not been markedly different from neighbouring countries. UNCTAD's FDI performance Index which ranks countries by how they do in attracting inward direct investment and what their potential is in that respect puts Ethiopia among the under-performing countries.[5]

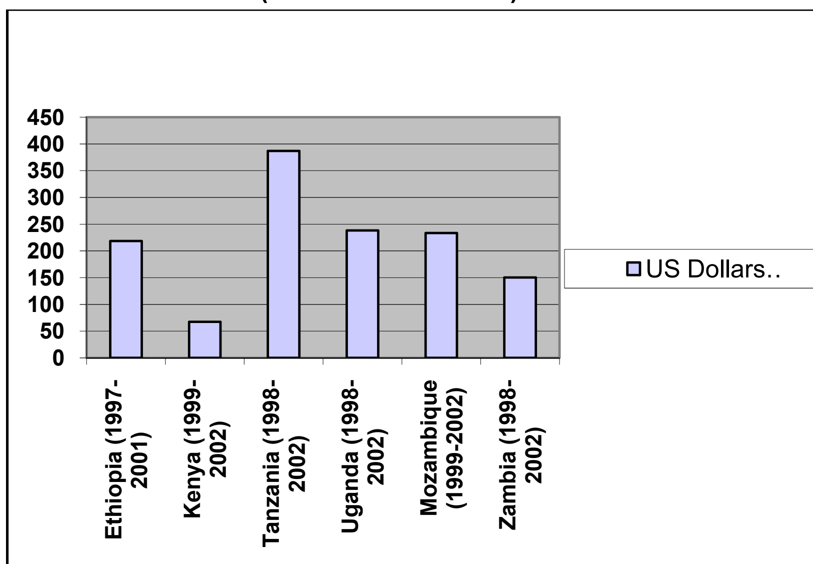
An analysis of the FDI data indicates that the bulk of it has so far been from developing countries in Asia (US$ 616.2 out of the total US$ 810.7 million during 1992-2002). FDI flows from the EU member countries amounted to US$ 138.1 million and from North America only US$ 14.1 million during the same period.

The data for the period 1992-2000 shows that 30 percent of the total FDI flows was invested on food, beverages, and tobacco industry, 8 percent on textiles, clothing and leather industry, 25 percent on mining quarrying and petroleum, 24 percent on

[5] The inward FDI performance index ranks countries by the FDI they receive relative to the economic size, calculated as the ratio of a country's share in global FDI inflows to its share in Global GDP. The UNCTAD World Investment Report shows that, among the ten countries in Africa, which attracted relatively higher FDI were countries with natural resource endowments – mainly petroleum – (Algeria, Angola, Chad, Equatorial guinea, Sudan and Tunisia, and to a lesser extent countries (Botswana, Lesotho and Mauritius) where investment in textile and apparel industries increased for export to the US and under the AGOA provision.

construction, hotels and restaurants, and the balance on other industries. Despite the country's immense potential in the textiles and leather manufactures, FDI in the two sub-sectors has so far remained relatively insignificant. With the right type of investment, linked to a strategy focusing on enhancing productivity of small producers, the role of these two sub-sectors could be pivotal in accelerating overall development not only through generating employment and income opportunities in the rural and urban areas, but also in diversifying the country's export base and enhancing its foreign exchange earnings.

Figure 2: Annual Average Foreign Direct Inward Investment Flows (selected countries)



Source: UNCTAD, FDI/TNC database

Investment in the mining industry has also remained extremely limited, despite the fact that explorations have shown the existence of a variety of minerals in the country.

The AGOA provision seems to have stimulated FDI flows, to a number of other African countries but less so to Ethiopia, for investment especially in textile industries to produce exportable products to take advantage of free access to the US market. In Lesotho, for instance, six new textile industries opened in 2002 and one industry with a capital of US$ 100 million in 2003. The total employment in the Lesotho's textile industry has jumped to 45,000, exceeding for the first time government employment in the country's history. In Mauritius, a Chinese firm has started constructing a cotton

yarn factory with a capital of US$ 60 million. The country's Government has also approved proposals for additional plants by Italian and Indian investors. In Namibia, a Malaysian-based firm has invested over US$ 200 million in textiles and garment-manufacturing plants, generating about 4500 jobs. Two additional garment firms with a total investment of US$ 115 million have also been established with the potential of creating 6000 jobs (USTRO 2003).

The flow of FDI to a given country in principle depends not only on fiscal incentives but on the general policy and political environment including governance, institutional and physical infrastructure, and availability of skilled manpower as well as a competitive and fair business climate. In particular, investors tend to be cautious to commit capital for long-term investment, in situations where they think there is political instability or where there is a potential risk of political instability. It is not clear why Ethiopia was less successful than a number of other Sub-Sahara African countries to attract private investment to expand textile and leather manufacturing industries to produce for export markets, despite its extensive reforms to attract FDI and the existence of duty free and quota free access to the US market under AGOA.

6. THE PROMISES OF GLOBALIZATION TO THE ETHIOPIAN ECONOMY

The experience of Ethiopia underlines that liberalization in terms of dismantling tariff and non-tariff per se is not a sufficient condition to enable developing countries to capture the benefits of globalization in terms of expanding their exports and foreign exchange earnings, as well as in attracting FDI to help them accelerate economic growth and to reduce poverty. Countries that have benefited, from the ongoing globalization process, in terms of expanding their export earnings and in attracting FDI flows, are those which began to open their markets after building relatively strong domestic industrial capacity often behind tariff and non-tariff barriers. These countries had equipped themselves with (i) more diversified productive capacity to meet domestic and export demand (ii) relatively high level of technology (iii) trained and skilled manpower to attract FDI, including through outsourcing in search of lower costs of production by firms in developed countries and (iv) well developed institutional and physical infrastructures including transport, telecommunications and power. Globalization in these countries played a role in stimulating economic growth, generating substantial employment and income opportunities and reducing poverty.

The Ethiopian economy is characterized by the predominance of rain-fed agriculture whose performance is often influenced by variability of weather; weak manufacturing

sector contributing not more than 10 percent of GDP; narrow primary commodity export base, with high dependence on coffee; low level of technological development; and inadequate institutional and physical infrastructures. Under this situation, Ethiopia appears ill prepared to take advantage of the opportunities generated by globalization process.

The process of globalization and integration is inevitable. The extent to which Ethiopia could capture the promises of globalization in terms of expanding its export trade and FDI investment flows, will very much depend on the country's ability to stimulate economic growth through a broad based development strategy, designed and owned by the country, and reflecting its national economic and social priorities. A broad based development strategy and globalization need not be mutually exclusive. While pursuing a sound strategy with twin objectives of rapid economic growth and eradication of poverty, Ethiopia has to continue its efforts to integrate with the global economy by expanding its exports of value added products and attracting FDI through economic measures which are consistent with its twin objectives of accelerating development and overcoming the problem of poverty.

The Government's Agriculture Development Led Industrialization (ADLI) strategy, in principle, appears the right strategy that Ethiopia should pursue to accelerate economic and social development using agriculture as a base to bring about sustainable food security, to provide raw materials for industrial development, and to supply exportable commodities for enhancing the country's foreign exchange earnings and import capacity especially of capital goods for development, and other essential items.

The strategy, however, much as it appears impressive on paper, has been less so in terms of its implementation process since it came into being more than ten years ago. The rate of agricultural growth remains unsatisfactory – varying considerably from year to year owing to weather variations. Cereal productivity per person is low – value added per capita from crops is estimated at only US$ 139 in Ethiopia as compared with the average of US$ 370 dollars for sub-Saharan Africa (MFED, FDRE 2002). Domestic food supply per capita currently estimated at 175 kg per person has been gradually declining. The country is faced with a structural food-deficit, and there are 4-5 million people chronically food insecure, needing food assistance from the Government every year. When droughts occur, the number of food insecure population increases – in 2002/03 the number of food insecure people who needed assistance bulged to about 12 million people. Poverty, though declining, remains rampant. The constraints inhibiting agricultural growth, and contributing to prevalence of poverty would have to be effectively addressed if the agriculture sector in Ethiopia

is to play an important role in providing a strong base for expanding manufacturing industries and for rapid transformation of the economy within the framework of ADLI.

Ethiopia can also realize the possible benefits from globalization only through a rapid agricultural development which leads to economic transformation, and diversification of its exports. The AGOA, EU/ACP, EBA and the world-wide tendency of reducing trade barriers seem in general to have opened vast opportunities for Ethiopia to expand exports and its foreign exchange earnings, which so far has remained limited because of dependence on a single commodity and declining trend of primary commodities prices in the international market. The duty free provision under COMESA agreement also provides a good opportunity to expand exports to potentially expanding markets in neighbouring countries - especially exports of manufactured products like leather in which Ethiopia has a relative cost advantage.

To benefit from globalization Ethiopia will have to expand production of key agricultural and manufactured products, which are of strategic importance in terms of generating employment and income and stimulating growth of the economy, and which at the same time have duty free access in important markets. One main window of entry to the global market is the vast livestock resource of the country. Expanding livestock products such as meat, milk, butter and cheese could prove to be a good source of foreign exchange and also for improving food security and nutrition in the country. The production of these items needs to be backed up by improved health and sanitary standards as well as appropriate storage and transport facilities.

The potential for leather manufactured export is also high but considerable amount of private sector investment would be required for expanding production and improving quality standards, for such exports to be competitive in international markets. Another item in which Ethiopia has an enormous export potential is textile products. This will require the expansion of cotton production in the country.

Other products which are of strategic importance in terms of enabling Ethiopia to benefit from globalization include: poultry and eggs; vegetable and corn oil production; sugar and honey; and vegetable and fruits both fresh and processed. The country has also the potential to be cereals surplus producer, provided the undue dependence on rain-fed agriculture and the country's vulnerability to droughts is effectively addressed through proper water management practices especially in drought prone areas.

In addition, the potential to produce and export minerals has yet to be exploited. Initial explorations have shown the availability of gold, platinum, phosphate, petroleum, metallic and chemical minerals.

In order to participate effectively and benefit from the on-going process of globalization in terms of rapid economic growth and poverty reduction, Ethiopia will have to utilize its potential to expand production and exports of agricultural, industrial and mineral products. The success in realizing its potential in increasing production, economic transformation, and diversifying exports will depend on:

- Raising productivity of small farmers.
- Increasing private investment –both domestic and foreign – especially in the productive sectors

The issue of the role of the state and the private sector in the economy needs to be clearly understood in a country like Ethiopia where poverty is massive. In recent years neo-liberal policy reforms, sponsored by the IMF and the World Bank, have tended to reduce the role of governments in many developing countries into that of a facilitator and regulator of markets, giving prominence to the private sector in the economy. In many Sub-Saharan African countries, such reforms have led into dissolving essential services for small farmers, such as agricultural research and extension, support for the construction of small scale irrigation, health services, and other activities where the private sector would not invest simply because small farmers and the poor in general do not have effective demand to buy the services. State support to small farmers and to the rural and urban poor to help them attain self reliance is essential and needs to be continued in Ethiopia, if poverty is to be tackled effectively. Reducing the role of the state into the role of facilitator and regulator is indeed necessary in sectors and activities which lend themselves for private initiative and in countries where the problem of poverty has been effectively addressed.

6.1. Raising the productivity of small farmers

The causes for the failure of the small farmer productivity to increase have been many. Apart from the various issues related to land ownership, one major problem facing farmers has been the absence of appropriate policy instruments to stabilize farm gate price and to safeguard the income of small farmers. In the case of cereal prices, the absence of such a policy combined with uncoordinated food aid flows, has led to depressed cereal farm gate prices – often to levels below costs of production. In spite of substantial production increases, the decline of farm prices resulted in lowering the total revenue of small farmers and their capacity to repay credits and, as a consequence, farmers had to sell their assets to repay credits – an antithesis of the

objective of credit for the poor, in that farmers become worse off compared to their situation before they borrowed the credit. This underlines that the policy for providing micro-credit and credit in general to the poor should be guided by a cardinal principle that lending to the poor should be for productive and profitable activities, and where there are guaranteed markets for their outputs. Poor farmers cannot afford to take risks, and should not be given credit that holds the danger of making them poorer.

Cereal prices are also characterized by inter-seasonal variations, with farm gate prices generally tending to be the lowest immediately after harvest owing to: (i) excess cereal supply as farmers are forced to sell their produce quickly to repay loans including input credits; (ii) the absence of guaranteed minimum prices to safeguard the income of farmers, and to provide incentives for sustained increase in cereal prices; (iii) low-income and savings of small farmers, which forces them to resort to selling their produce irrespective of the level of prices, to meet their credit repayment obligations; (iv) absence of well organized private trade (Harrison) and (v) limited capacity of the Ethiopian Grain Enterprise to act as a buyer and seller of last resort to stabilize farm gate prices and consumer prices respectively. As a result, during bumper harvests, the country is faced with the paradox of low cereal prices in surplus areas co-existing with food shortages and hunger in the cereal deficit areas.

The downward pressure of cereal prices owing in part to uncoordinated delivery of food aid, and to the absence of policy measures to protect farmers from selling at unprofitable price levels, no doubt, has disincentive effects on farmers to enhance their productivity and total output through infusion of technological inputs as well as through investing on land improvements.

The main policy measure to boost small farmer production is to ensure the profitability of the production of various crops. It is essential to undertake research to establish the costs of production and profitability margins for each crop at farm level, taking into account technological inputs, labour, interest on credit, distance from markets, and other cost elements. Possible measures to encourage increase of production at farm level may include establishing guaranteed minimum farm gate prices; encouraging greater private sector involvement in marketing of agricultural products; providing inducements to support the emergence of a thriving private sector and entrepreneurship; ensuring that agricultural marketing is fully competitive; and providing market and price information to producers, traders and consumers.

The establishment of minimum guaranteed prices necessitates establishing grades and quality standards. With regard to the negative impact of food aid on grain markets, it should be addressed through procuring cereals from domestic production.

The initiatives by the EU of procuring cereals from the domestic market for food assistance, and the recent US initiative in this direction are encouraging. It is also important, where possible, that food assistance is provided through cash-for-work rather than food-for-work to minimize interference in the functioning of the domestic grains market.
To enhance the productivity of small farmers, the problem of degradation of natural resources needs also be addressed at farm level. The ongoing extension system in the country, to yield sustainable results, should take into account the need to improve sustainability of resources at the farm level through such measures as control of soil erosion, and introducing conservation farming to improve soil fertility.

The problem of land fragmentation is also an issue which affects small holder farm productivity. To address the problem of land fragmentation, the government has proposed that land holdings would be registered and that small farmers would be provided with certificate of user rights as a guarantee for not re-dividing land for a period 20-30 years (MFED, FDRE 2002). Whilst such a policy may be useful in cases where holdings are reasonably large, it may not be helpful in the case where land holdings are already too small. It should be underlined however that the problem of fragmentation of land holdings is not only a reflection of rural population pressure but also the lack of vibrant private investment and weak overall development process, which has failed to provide alternative employment opportunities for rural labour to move out of agriculture. The problem can be more effectively addressed by promoting private sector investment in labour-intensive enterprises in the manufacturing, agriculture, and service sectors, and through the expansion of education, training and skill development in specific trades.

In arid and semi-arid areas measures are being taken to improve water management through rain harvesting, use of ground water, and river diversion but such efforts need to be stepped up more than at present.

As already mentioned, the strategy for rising the productivity of small farmers should not be seen in isolation from the need of insuring markets for their products. One possible approach is to link, where possible, small farmer as suppliers to big distributors, exporters, and processing industries, through contractual arrangements or other forms of marketing arrangements. This will help to enhance the income of farmers, and reduce rural poverty. Increased rural income in turn will enhance the effective demand for manufactured products in the rural areas.

6.2. The need for increased private investment

The possibility of reaping the benefits from globalization will highly depend on the success of the country to develop a competitive and dynamic private sector. A growing and competitive private sector is instrumental in bringing about economic development, introducing technology and setting the process of economic transformation.

In principle private investment- domestic and foreign- is guided by profit motive but it can also play a direct and an indirect role in reducing poverty. Investment in small, medium, and large-sized labour intensive enterprises in towns and rural areas could have a direct impact in reducing poverty through two ways: (i) generating employment and income for skilled and unskilled workers, and (ii) providing demand for raw materials inputs, especially if produced by small farmers. Milk processing, tomato processing, fruits processing, and vegetable oil processing are among possible enterprises which can reduce poverty along the dual paths mentioned. Private investment in such industries is thus central in raising the living standards of the rural poor. An added advantage of private investment in such industries is that they contribute to local entrepreneurial, management and technical skills development through learning by doing - and strengthening work ethics of skilled and unskilled workers.

Private investment in manufacturing industries that generates employment to highly skilled labour and which does not use local inputs may not have a direct impact on poverty reduction. However, contributing to productivity growth, diffusion of technology, upgrading of skills, contributing to public revenue through payment of taxes could create "an enabling economic environment" to benefit the poor (ODI). It is also usually the case that foreign enterprises pay higher wages than local enterprises with similar qualifications. In such cases foreign capital is likely to increase inequality in salary and wage incomes – widening the income gap between skilled and unskilled and urban and rural workers (ODI).

A relative advantage of FDI is that it can be a source of capital and technology inputs in addition to generating employment opportunities. This is particularly useful in countries like Ethiopia where the capacity to import capital and essential inputs for development is constrained because of the limited foreign exchange earnings and because of debt burden. If FDI is used for the acquisition of privatised industries, it does not add to the total capital stock in the country, and it's the usefulness in terms of introducing new technology and generating employment opportunities gets blunted.

The role of the private sector in stimulating economic growth and generating employment and income opportunities so far has been less than satisfactory in Ethiopia. During 1996/97- 2001/02 per capita income in Ethiopia grew at a disappointingly slow pace of only 0.89 percent per year (Berhanu and Kibre 2003), and this is largely attributable to the fact that private sector investment especially in the productive sectors (agriculture and industry) has been less than vibrant. The small increase in per capita income was accounted far more by the service sector than by the productive sectors (Berhanu and Kibre 2003). During the second half of the 1990s, the service sector increased at annual rate of 8 percent per year (compared to the productive sectors which grew at only 2.3 percent per year). The service sector in real terms on the average accounted for 43 percent of the GDP, owing largely to service and security related expenditures (Berhanu and Kibre 2003).

A review of the data on investment capital approved by the Ethiopian Investment Authority (EIA) shows a declining trend between approved and actually invested capital in the second half of the 1990s. The ratio of invested capital to the total approved capital not only remained low – less than 40 percent – but also declined persistently from 35.7 percent in 1996/97 to 28.6 percent in 199/97 and 11.5 percent in 1998/99 and, after recovering to38.4 percent in 1999/2000, plummeted again to only 5.5 percent in 2000/01. The decline in the implementation rate was more pronounced in foreign capital – the ratio of the actual invested capita to approved capital having declined from 52 percent in 1996/97 to only 2.8 percent in 2000/01.

It is plausible, as noted by Berhanu and Kibre Moges, that the decline in investment from already low levels is an indication of the erosion of the confidence of the private sector in the country, or a partial indication of at least “that business perception about business environment in the country is not positive and improving.”

6.3 Preconditions for increasing domestic and foreign private investment

As already underlined, liberalization per se in terms of dismantling trade barriers and investment policies would not do much to attract FDI, unless the overall enabling environment is favourable. One important precondition for stimulating private sector development is good business climate, which is determined by control of corruption, well functioning bureaucracies and regulations, contract enforcement and protection of property rights. Another set of precondition for investment climate includes availability of skilled man power, well developed infrastructural facilities including transport, telecommunication and electric power. The prevalence of peace and

political stability is also a precondition is of paramount importance for attracting foreign and domestic private investment.

A recent survey on the business climate in Ethiopia has shown that 62 percent of the enterprises felt that business climate in Ethiopia discourages business investment as well as free market competition. The survey covered matters as state-business relations, government policy environment, business environment, and international competitiveness.

The UNCTAD report (2002) “Investment and Innovation Policy Review - Ethiopia” shows that the strong elements relating to investment environment in Ethiopia are: a liberal and attractive investment climate; opportunities for FDI in many areas including agro-business manufacturing, tourism, infrastructure (in particular energy and telecommunications); and an artesian tradition and proven record of dynamic entrepreneurship. At the same time it points out that the weaknesses are: the cost of doing business is still high due to remaining bureaucratic procedures and lack of defined instrument of promotion strategy.

Under the Sustainable Development and Poverty Reduction Program, the Government envisages the economy to grow in real terms at an average rate of 5.7 percent per year through 2015, with the view to reducing poverty by half from its current level in line with the Millennium Development Goals (MDGs). The Government that the resource gap to attain such a relatively high rate of growth would be filled by the private sector, both foreign and domestic. The extent to which the private sector investment would fill the resource gap, and play a key role in stimulating development will depend on how far the institutional reforms would go in addressing the concerns of the private sector. These concerns are more relevant to small rural enterprises and small farmers, since bad investment climate hits agriculture and small farmers harder than bigger enterprises (World Bank 2003). Among the reforms which need to be addressed is the private sector’s concern relating the party owned large-scale enterprises in the country, which may be thwarting free competition.

The success of reforms also depends on the strengthening of democracy, human rights, and the rule of law. The strengthening of democracy would certainly contribute to building a strong trust between the government, the business sector and the citizens at large. Above all peace and political stability is a precondition of paramount importance for private investment to grow on sustainable basis with new flows of investment both from domestic and foreign sources. The absence of political instability has the danger of repelling FDI and encouraging domestic capital flight and

brain drain of trained and skilled manpower to other countries. Activities that prosper under conditions of instability and uncertainty are rent seeking and illegal type activities with serious damage to the economy.

> The report on the implementation of the African Growth and Opportunity Act (May 2003), regarding human rights and political situation in Ethiopia states as follows: "*Ethiopia's human rights record is poor, though there is progress in some areas. Ethnic clashes continue to claim lives in several parts of the country. In the past year such clashes have occurred in Gambella, Oromia, Afar, and southern regions. Efforts to establish a Human Rights Commission and the process of choosing a Human Rights Ombudsman are progressing very slowly*" (USTRO 2003).

In identifying the factors that contribute to Ethiopia's competitiveness with regard to attracting FDI, UNCTAD shows that Ethiopia has many positive factors to attract FDI but indicates that instability in some of the regions in the country as a weakness which may discourage FDI (UNCTAD 2003).

The image that Ethiopia has in the eyes of the rest of the rest of the world, as a country where ethnic clashes are prevalent and peace and political stability is uncertain augurs bad for FDI flows and for domestic investment to thrive. Ethiopia has to take a concerted effort to change this image, to ensure that the private sector thrives in the country, without which meaningful development will not take place.

7. THE PERILS OF GLOBALIZATION

The perils of globalization to the Ethiopian economy emanate from (i) the country's policy of dismantling tariffs and non-tariff measures on imports of domestically manufactured products, under the current low level of development "infant" industrial capacity, and (ii) instability of global financial flows.

8. PERILS OF LIBERALIZATION OF TRADE, UNDER CONDITIONS OF LOW DEVELOPMENT

Experience of other countries notably India and China has shown that developing countries benefit from liberalization of their trade regime, once they have attained a good industrial base. With well developed industrial capacity, opening up trade regime induces local industries to improve quality and to be cost effective, making local products competitive not only in the domestic market but also in export markets.

Under conditions where local industries are weak in terms of productivity and quality of products, reduction of tariff and non-tariff measures has the danger of flooding domestic markets with cheap imports making locally manufactured products less competitive and un-sellable in the domestic market. This could lead to closing of local industries and loss of employment and income of industrial workers – in the words of Stiglitz, a change from "low productivity to no productivity." In developing countries where, because of lack of capital and low level of technology, the economy cannot quickly adjust through investment in other areas, and many of the industrial workers, who lose their jobs, will risk permanent unemployment with all its social consequences: household food insecurity, the risk of joining the ranks of the poor, inability to send children to schools, inability to pay for health services, splitting of families, and child labour.

In the Ethiopian context more than 8000 industrial workers have lost their jobs between 1995 and 2001. As already underlined in this paper, whilst the cause for this could be structural problems, increased imports because of reduced barriers could also have contributed to the loss of unemployment and income of industrial workers. Unless the structural problems are corrected quickly and co-ordinated with more cautious trade policies, local industries will be in danger of losing the domestic market because of rising imports. This has implications to the very survival of the existing industries and worsening unemployment problems in the country, and arresting economic transformation of the economy through industrialization.

In the absence of rapid economic transformation and development, the income gap between Ethiopia and other countries (both developed and developing) would continue to widen. Low salaries and the overall standard of living relative to that in other countries would force, as it is already happening, highly trained Ethiopians such as university professors, medical doctors, engineers, economists and public servants to migrate to other countries. This will have serious consequences in retarding development in the country.

8.1 Perils of instability induced by global financial markets

One other peril of globalization is the possibility of financial crises induced by instability of global financial markets. The perils of financial crises associated with global finance emanate from: the risks of sudden reversal of international capital flows, which often arise from "Herd behaviour"[6]; the risk of interest rate increase in

[6] "Herd behavior" refers to general behavior of investors to act together in influencing the direction of financial flows based on investor sentiment or modern risk management models.

advanced countries; the risk of currency speculation and, on the recipients' side, the risk of inadequate sequencing of capital account liberalization (Haug).

The experience of Latin American countries and East Asian countries has shown that crises generated by financial globalization impacts on growth and poverty have been dramatic. The crisis such as those affecting Argentina and Indonesia has wiped out over 20 percent of GDP in each of these countries. The South East Asian financial crisis 1997 had resulted in condemning 22 million people to poverty (The Economist, 2004).

9. CONCLUSION

The experience of Ethiopia has shown that the series of liberalization policy reforms has not enabled the country to benefit from globalization. On the contrary, it is possible that trade liberalization policy reforms, through encouraging imported goods, could have contributed to the problem of the shrinking employment and income in the manufacturing sector, though the problem could be mainly owing to structural problems that make manufacturing industries run at partial capacity.

A review of empirical studies on the experience of other developing countries has also shown that the success of those countries, which benefited in terms of growth and poverty reduction, from engaging in more expanded trade and from investment flows over the past one or two decades, was not totally attributable to liberalization of their policies per se. Such countries had attained a strong industrial capacity and a significant increase in GDP behind trade barriers, prior to liberalizing their trade and investment policies (see Section 3).

The extent to which Ethiopia could capture the promises of globalization in terms of expanding its export trade and FDI investment flows will depend much on the country's ability to stimulate its economic and social development. Accelerated economic and social development in Ethiopia is possible through rapid agricultural development. A rapid and sustainable agricultural development, first, will ensure the country to realize its food security potential, to diversify its exports, and to come out from dependence on food aid. Second, it will provide a strong base for quick transformation into manufacturing industry and service sectors, provided it is complemented by a well designed labour intensive and local input-based manufacturing sector. A growing manufacturing sector in turn by creating demand for agricultural products stimulates agricultural growth. It also creates growing

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The outflow of foreign financial capital in 1997/98 which precipitated the South-East Asian crisis underlines the danger of Herd behavior in global financial markets.

employment and income opportunities for urban and rural population, and plays an important role in tackling unemployment and underemployment in the rural areas.

The success in achieving a dynamic development process through such an integrated approach in Ethiopia will highly depend on (i) raising the productivity of small farmers and (ii) the increase of private investment (domestic and foreign) especially in the productive sectors, which so far has remained unsatisfactory.

The precondition for success in raising productivity of small farmers lies in addressing the institutional and structural problems that farmers are faced with. In particular, ensuring markets for the produce of small farmers is pivotal to stimulate productivity and output of small farmers. One possible way of creating a possibility for small farmers to benefit from globalization is to link, where possible, small farmer as suppliers to big distributors, exporters, and processing industries, through contractual or other forms of marketing arrangements. This will help to enhance the income of farmers, and reduce rural poverty. Increased rural income in turn will enhance the effective demand for manufactured products in the rural areas.

The factors contributing to limiting the role of the private sector to play a pivotal role in stimulating economic growth need also to be addressed – restoring the confidence of the private entrepreneurs is one of the most priority issues that need to be addressed. A vibrant private sector with growing investments in small, medium and large-scale enterprises especially in the productive sectors would accelerate growth and enable Ethiopia to benefit from globalization. It will also contribute directly and indirectly to the objective of poverty eradication.

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