ON THE GROWTH TRAGEDY OF SUB-SAHARAN AFRICA AND THE FREE-TRADE POLICY PRESCRIPTION FOR THESE NATIONS, AN ANALYTICAL REVIEW: IN REFERENCE TO ETHIOPIA

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Abstract

In spite of the empirical and theoretical controversies among the economists, poor nations like Ethiopia are urged to pursue international trade-driven development policy path: liberalisation, deregulatiòn, privatisation, etc., effected through Structural Adjustment Programmes (SAPs) and other arrangements. Liberalisation (removal of boarder barriers), privatisation and the emergence of new forms of regulation are, nonetheless, central to globalisation (Picciotto 2002: 5). The ultimate desire in realising competitive market-led world (globalisation) is rather to make good market access for the goods and services of developed nations (example Morrissey and Filatotchev 2000; Hoekman and Holmes 1999).

The principal query with this review paper is: what do we economists (particularly those from the region) have to say towards the promotion of this development policy path for poor and illiterate dominated and ill economic environment nations such as Ethiopia? Do we have theoretical rationales and acquiesces to honour the policy for Ethiopia, taking into account the institutional deficiencies, behavioural and skill factors, physical resources, technological grids, etc., of the nation? Growth is a long-run process, policies based on the short-run conception of growth cause distortions in resource allocation and factor accumulation, thereby economic retardation. It is also apparent that policies that ignore the realities of an economy, the behaviour and aspirations of the economic agents and appropriate time frames will not succeed, no-matter they base accurate information and parameter estimates. A ten-or-twenty year period growth loss due to erroneous (short-run based) policies can have a dramatic effect. The attempt to move Russia and other former communist countries to a new steady state by following an agenda that is not well founded in realistic details may lead to negative results *(Mundlak 2000).*

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And this paper gears to subsume and evaluate the growth shortfalls accounted by various economists and the promotion of the trade-driven development path to the poor SSA nations in general and Ethiopia in particular, from the perspective of literature empirical evidences (the development histories of rich nations and experience of poor SSA with the imposed policy prescriptions), from the literature, the developments in economic growth theories (including the new institutional economics) and the theory of trade. What will be the end of the time equilibrium situation of this poor nation under the free trade-driven development policy path and the spirit of globalisation? Would the traditional subsistence households and the destitute mass be benefited or would they rather be evicted from resource ownership and living? In sum, how can we expound the policy prescriptions and the likely outcomes from the perspective of economics and development empirics?

1. INTRODUCTION

Whereas, at the end of the last century, less than one-fifth of the world population are producing four-fifth of world output, the vast majority of humankind, the core part being SSA, has much scope for catching up with the most productive communities (Kasper and Striet 1998). What have had locked SSA to remain in about 7000 years old technological regime-therefore walloped with economic poverty and other debacles?

In the 18^{th} and early 19^{th} century, the first industrialised countries, Britain, North America and Germany were employing traditional technologies which were known for thousands of years earlier to the forefathers of the present Ethiopians and other sub-Saharan Africans'. Hereto, economic historians have documented that the societies that were most affluent and productive in 1820 managed to achieve the steepest increase in living standards during the nineteenth century. According to the writers, most of the countries that were the poorest about 200 years ago are still lagging behind. However, Japan, which was poor and isolated in the beginning of the 19th century, caught up with the richest countries in Europe and America in the second half of the 20^{th} century. Same with East Asian countries in the late 20^{th} century (Kasper and Strie 1998).

How about Sub-Saharan Africa? During the period 1960-1973, growth in Africa was even more rapid than in the first half of the 20^{th} century. Political self-determination in Africa and economic growth were reported to be proceeding hand-in-hand. Since 1980, aggregate per capita GDP in SSA declined at almost 1% per annum. Thirty-two countries of the region are reported to be poorer now than in 1980. And today SSA is the lowest-income region in the world (Collier and Gunning 1999b). Unlike other parts of the world, the relative incidence of malnutrition/poverty in Sub-Saharan Africa has even increased over recent decades (World Bank 1992; Warford *et al.*, 1997; Mlambo and Oshikoyo 2001). Sub-Saharan Africa's growth tragedy is reflected in painful human scars. The typical African mother has only a 30% chance of having all of her children survive to age five. Average life expectancy in Sub-Saharan Africa is less than 50 years (Easterly and Levine 1997). This is further deteriorating specifically with the contemporary HIV/AIDS regime, deterioration of economic growth and high social and political unrest.

Africa's growth tragedy is not any more the concern and threat of the citizens only. It is also that of other stakeholders. Many nations and societies are accountable for and liable to the tragedy of Africa and the human scars in the region. Down to history, there had been ruthless influences (such as colonialism and slavery) on Africa, particularly from Europe. These have had tampered or destroyed physical, psychological, and human capitals and growth potentials of the region and the people. Lingering encumbrances on growth facilitating social capital of the nations, such as custom, tradition, education/creativity, self-reliance, etc are also inevitable. Whether an implicit reparation or any other intention, many nations and societies are catering on the issue of Africa. Lots of human and physical capital are flooding in to the region, at least the echo of these is tremendous. From the 3rd quarter of the last century on, developed nations have been 'highly involved' in the economic, political and development programs of the poor Sub-Saharan nations including Ethiopia, through development projects, aid, loan (such as SAP loan), research, political intervention, etc. However, Africa's economic tragedy is rather worsening. Nor are the "ills" truly known. Most of the development co-operation and aid regimes, to Africa, are paradoxical. So also are some of the articulated growth-ills of the region.

A couple of policy measures have been designed and promoted, such as the Structural Adjustment programs (SAPs). In the mid-1980s, many African countries (Ethiopia since the early 1990s) entered into SAPs. The ultimate aim of SAP was to transform state-owned enterprises into competitive and economic organisations and therefrom achieve growth. By 1997, over 2,700 public enterprises had been privatised as part of the SAPs in the region (Ayogu and Fosu 2002). The issue, however, is whether the poor nations have achieved economic growth and sustainable social and economic development. Or was it mere experimentation and churning the economies for the worse, as per the "economics illusions" and globalisation enthusiasms of the Western scholars and politicians[1] The free market policy prescription included SAP, bilateral development co-operation programs/projects, etc, which were marked to remove market protection measures and other structural problems. Yet, prevailing economic and socio-political structures and actions are portraying measly performances and prospects. And Africa remained poor. The underdevelopment and poverty pathology is clobbering the population in the region. Hitherto "generosities" of

[1] After two decades of market liberalization and the collapse of communism, the world has come to think of markets as the natural way to organize economic activity (Fafchamps 2001).

the rich nations and external relations of SSA and global policy regimes have *rather caged and hedged African governments and Africans;* the region is owed with huge debts, political commitments and other socio-economic enslavement. These give extra rights for "externals", to exercise sanction and/or military aggressions in cases of non-compliance. On the other hand, others will be affected, directly or indirectly; the population scars and the poverty in SSA and other poor nations would impair the well-being of societies and governments of rich nations, too. And the tragedy of the region is a matter of concern to all globally.

But, why has the condition in SSA been deteriorating in the century when technology is at its peak and developed nations have been echoing opening their doors for them and helping the poor and poor nations in development, education and all? Why is destitution rather rock-hardened in SSA while indulgence is soaring in many other nations? What is the predicament of SSA? Would there be trade off between African development opportunities and the development success of the currently rich Western nations? What is undermining and/or deluding the economies of SSA?

This review paper provides an overview assessment of the growth shortfalls and development policy prescriptions with the perspective of attempting to identify their effects and defacements on the short-term and long-term economic and socio-political advantages and potentials of the societies of Ethiopia and other SSA nations. The paper focuses more on subsuming and assessing the growth shortfalls accounted in the literature. The next section, Section 2, provides an overview of the ills of the SSA economies as accounted by various contributors. Analytical remarks from the perspective of theoretical learning, development history experiences and empirical lessons are provided against each accounted growth shortfall. Section 3 provides detailed theoretical and empirical perspectives on institutional, governance, and external relation related growth ills of the economies of SSA. Section 4 deals with the genesis of the trade-driven development policy path prescription and its blots. Section 5 provides some more evidences on the real ambitions (and deleterious effects on the economy and societies of Ethiopia and other poor SSA nations) with the free international trade (globalisation). Lastly, summary of the main contributions of this paper are discussed in Section 6. References for this review work are provided, at the end.

2. SUBSUMING THE GROWTH SHORTFALLS OF SUB-SAHARAN AFRICA

Why is destitution rather rock-hardened in Ethiopia and other SSA countries while indulgence is ever soaring in the Western nations, would there be tradeoffs? [the author].

'...They look at everything except the cause -- the powerful own the world's

> social wealth. ...the real causes must be kept from ourselves, as how else can this systematic damaging of others be squared with what we are taught about democracy, rights, freedom, and justice?'. [J. W. Smith 1989].
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> ...and beyond economics, the absence of growth means, necessarily, that sub-Saharan nations will remain plagued by high rates of infant mortality and comparatively low life expectancies for indefinite periods into the future'. [George L. Priest, Foreword in Tanyi 1997].

Some SSA nations, such as Ethiopia, are not only behind the development level of many other nations of the globe, but are also behind meeting food and shelter requirements of their population. There, human beings are increasingly devoid of basic necessities of life. There, we see the globe "*catering*" and rather "*experimenting*", all saying to combat hunger and poverty, at the midst of the populace lacking basic necessities of life. Why is Africa degenerating and remaining poor? Because of history (age), destiny, overpowering subjugation or what?

It is apparent that Africa is poor not because it is a yet evolving region and society. AFRICA is the Old World. Of all the earth's continents, Africa provides the longest, deepest record of human past. Africa is referred to as the 'cradle of humankind' and modern man. Food production in the form of agriculture and herding, in East and many other parts of Africa, dates back to 5000 to 6000 BC. Africans were familiar with technologies such as iron technology, back from the first millennium BC. Iron technology and urban living was known to the Ethiopians[2] since the first millennium BC. Peoples of Africa developed pottery around 6500 and 8500 BC. Since about 5000 BC, hunters and fishermen in East Africa (along the Nile) developed large settlements, used pottery, built substantial house structures and kept domestic cattle, sheep and goats. During the last millennium BC, many agriculture-based societies rapidly developed. Specialised arts and crafts flourished, thriving trade emerged, power was consolidated and populations grew. The great, complex and consolidated societies and states such as the ancient kingdoms of the Nile in Northeast Africa, Axum in Ethiopia, Meroe in Nubia and the states of Ghana were evident, down to history-in the last millennium BC and earlier. The Axumite kingdom of Ethiopia controlled trade through the Red Sea from its port capital at Adulis. In the 4th century AD, the classic languages of the ancient Axumites of Ethiopia was expressed in written form. For Egypt, writing dates back to 3000 BC. [see Martin and O'Meara 1995; Roberts 1997]. In the 18th and early 19th century, the first industrialised countries, Britain, North America and Germany were employing traditional technologies which must have been known to Ethiopians and other Africans thousands of years earlier.

How could the economic stagnation or rather degeneration of SSA in general and

[2]Tools found in Ethiopia are the oldest (about two and half millions years old) Roberts (1997:11).

Ethiopia in particular, be explained hence? Ethiopia is poverty-stricken in the 21st century in spite of the ancientry of its history, its familiarity with early technologies, well-developed early governance systems, states, societies, culture, and access to modern know-how and "technological markets". The growth tragedy of SSA nations such as Ethiopia seems to contradict economic theory and common sense. Why? Why is destitution rather rock-hardened in SSA while indulgence is soaring in many other nations, would there be trade off?

There are various explanations and arguments on this unresolved single query, *tragedy of Africa's economy*. Some, rather pragmatic perspectives, provide speculations related to historical contingencies and egoism of the affluent sovereignties (example Maren 1997). Yet, "simplistic" explanations such as "*Population pressure-Soil degradation-Impoverishment vicious loop*", are advocated by many others. In such loop, the rapid population growth coupled with other factors such as poor property rights and poor governance are blamed for causing soil degradation (Lele and Stone 1987; Paarlberg 1996; Warford *et al.,* 1995). The basics of the loop are, however, against some accepted theories and historical accounts. First of all, the explanation is in contradiction to theories of induced innovation (Hayami and Ruttan 1985) and agricultural intensification (Boserup 1981; Pinagali and Binswanger 1988; Ruthenberg 1980), which suggest that population growth induces an increase in labour efforts and an adjustment of techniques which lead to a sustainable intensification of land use. The explanation also contradicts the historical account that periods of demographic and agricultural expansion have alternated with periods of stagnation or decline (example Slicher van Bath 1963). Explanations such as this and others related to biosphere and physical limitations are in general problems which economists would understand as that which stimulate and motivate man to long for technological innovation and thereof growth. Also, other contributors documented that impoverishment by itself doesn't necessarily cause environmental degradation (such as soil degradation), see Pearce and Warford (1993). Pearce and Warford argue that the coping strategies of the poor, which in turn depends on the availability of options, cultural factors and policies, rather matters for environmental/soil degradation.

Some other critical scholars try to relate the underdevelopment dilemma of SSA to the emergence of European world trade structure in the 15th century, specialisation of Africa in export of natural resources and slavery, etc (lecture by N. Koning[3] December 2001, Wageningen). Other Western moralists ascribe the problem solely to the selfish interest of developed governments: *The ongoing role of Third World countries is to be the supplier of cheap and plentiful raw materials and agricultural products to the developed world. Nature's wealth was, and is, being controlled to fulfil the needs*

[3] 'Throughout history, The Netherlands has been like the present Sub-Saharan Africa. We did all at our reach (including exploiting the natural resources, etc) and here is The Netherlands today. Why, we (the developed world) say to these Africans don't do what we did, do what we tell you?' (lecture on Environment and Development by Dr N. Koning, March 2000, Wageningen).

of the world's affluent people. The U.S. is one of the prime beneficiaries of this well-established system. Our great universities search diligently for "the answer" to the problem of poverty and hunger. They invariably find it in "lack of motivation, inadequate or no education," or some other self-serving excuse. They look at everything except the cause -- the powerful own the world's social wealth. As a major beneficiary, we have much to gain by perpetuating the myths of overpopulation, cultural and racial inferiority, and so forth. The real causes must be kept from ourselves, as how else can this systematic damaging of others be squared with what we are taught about democracy, rights, freedom, and justice?" J. W. Smith (1989).

The dumping of the surplus production for free or nearly no cost to poorer nations means that the farmers from such countries cannot compete and are driven out of jobs, further slanting the "market share" of the larger producers such as the US and Europe. *In Africa, the people who are supposed to benefit from aid see what is happening. They hear foreigners talking about development, but they know development was a colonial policy. Development was a policy of subjugation. When colonialists came ashore, they did not say, "we are here to steal your land and take your resources." And then they went and took their land and resources and hired their people to clean their toilets. And now here come the aid workers, who move into the big colonial houses and ride in high cars above the squalor, all the while insisting they have come to help. ...Like most people in the United States and Western Europe, I have heard the pleas of aid organisations and boasts of their accomplishments in the Third World, but the Africa I know today is in much worse shape than it was when I first arrived. The features of Africa's children are less hopeful than ever before. ...*The writer is very bold to the extent of exposing his expertise incompetence. He said, "*The people in the village were endlessly amused by my ignorance about agriculture. ...I was the one who learned...*", Michael Maren (1997). How about the current 'revelation' of the rich nations prescribed for the same victims, 'free trade in realising international efficiency'? Is this to benefit the West like 'expertise' Michael Maren has been benefiting from the African farmers? In other words, would this be another neo-colonial wisdom or would it be the pragmatic wayout for the poor nations? Let us postpone the issue of the trade-driven development path prescription to later sections and come back to accounting for the explanations given to the Africans' growth tragedy.

There are various empirical explanations by economists and others, based on cross-country and panel data analyses for the growth tragedy of SSA. It should be said from the outset, however, that in most cases the causes and mechanisms of the identified growth impeding factors are not stressed/they are somehow overlooked as J. W. Smith (1989) forwarded when he said "*They look at everything except the cause*". Well, World Bank, IMF and other economists documented tremendous explanations on the underdevelopment perplexity of the region. Accounting the outputs of the various research literatures would result in a wide array of factors indicted of the tragedy. Poor economic environments (such as market failure, bad governance, bad policies, inadequate infrastructures, political instability), poor geographical and natural factors (land-lockedness, tropicity), ethnic diversity, poor health and other demographic factors, poor saving and investments, lack of financial depth, high aid dependence, high resource endowment, poor education, etc could be mustered from the various "scientific toils" on the growth shortfalls of Sub-Saharan Africa. Overview of the empirical evidences of these growth shortfalls, as presented by various contributors, are outlined below under eight categories viz. poor institutional quality/poor economic environments, lack of 'openness', high debt burden, high ethno-linguistic fractionalisation, poor saving and investment, low level of education and poor contribution of skilled labour to growth, geographical variables, and others (such as poor health and demographic factors, lack of financial depth, and high resource endowment). In the presentations, empirics and arguments in the literature are in most cases followed by remarks and/or critics, as mentioned earlier.

2.1. Poor Institutional Quality/Poor Economic Environments

Institutional and economic environment (mostly governance-caused) deficiencies seem pragmatic and probably are the most important growth impeding factors in the economies of Ethiopia and other SSA nations. Various contributions provided clear and intuitive evidences that these factors are lacking and impeding growth in the economies of SSA. The root causes of these deficiencies are, however, overlooked or are yet obscure. Detailed perspectives and overview of the evidences and arguments indicting institutions and governance for the Africa's growth tragedy are provided in Section 3.

In general, literature teaches that SSA states were born lacking legitimacy in the sense that they were not endogenous to their societies, that they were not historically embedded into domestic relations of power and domination and that they, therefore, suffered from a dichotomization between power and statehood. The states do not benefit from pre-existing level of societal loyalty; bureaucrats become disloyal to the states, and private agents become distrustful of their institutions, and the state will not be able to implement development policies. The state became, therefore, a potential resource to be appropriated or a possible instrument of the domination of other groups. Ruling elites, hence, resort to neo-patrimonial policies i.e. propensity for ignoring one's own institutions and for resorting to corruption, clientelism, nepotism, regionalism and other forms of factionalism), i.e. they opt for neo-patrimonial rather than developmental policies (example Easterly and Levine 1997; Sachs and Warner 1997).

One may employ these truths to see the "bottlenecks" of former and current Ethiopian leaderships and their resorting. It should not be an excuse for the leaderships but linkage of the leadership bodies to Western "aid" and pursuing regionalism, ethnic politics, etc., may not be the real will and vision of the domestic politicians/the leadership. Lack of both economic and legitimacy power would have forced the

Ethiopian leaders, for instance, to resort to growth hostile policies and other enthusiasms. How did Ethiopia go through, for instance, the socialist era, in this regard? How has the TPLF-EPRDF regime come to power and reacted to the "divorce" problem? These types of sensitive/suspicious questions shall be left unanswered primarily because, though every Ethiopian mind knows what it knows, written information about Ethiopia is generally lacking. Let us now proceed with eliciting the next growth shortfalls of SSA, from the literature.

2.2. Lack of "Openness"/Closure from International Market

Many contributors identify opening an economy to external markets/outward-orientation to be the leading growth shortfall of SSA. Dollar (1992) from his analyses of the data (from 95 developing countries including SSA) over the period 1976-85, concluded that trade liberalisation and devaluation of the real exchange rate could dramatically improve growth performance in poor countries. His work complements the general arguments put forward by Balassa (1978) and Krueger (1980). Dollar reported that per capita income of the African countries was declining on average by 0.4% while the Asian economies grew on average by 3.4%. He claimed that Africa would gain 2.1 percentage points in per capita growth by shifting to the Asian level outward orientation and real exchange rate stability stance. For Dollar, outward orientation makes it possible to use external capital for development without encountering serious problems in servicing the corresponding debt. He also shared priori-documented outcomes which evidenced relationship between exporting and total factor productivity, i.e. the process of exporting combined with easy availability of imported inputs and machinery was believed to accelerates technological advance in developing economies. Hence, such and other works complemented the realisation of the Washington Consensus (WCs) and the therefrom ravaging privatisation and free trade policy prescriptions imposed on Ethiopia and other poor SSA countries, effected mainly through structural adjustment programs (SAP).

Other subsequent (after SAP) cross-country empirical analyses on development provided also regression evidences that openness is the most important growth shortfall for the SSA countries (Collier and Gunning 1999a and 1999b; Easterly and Levine 1997; Sachs and Warner 1997; Srinivasan 1999). Sachs and Warner (1997) asserted that openness to international trade affects growth in two ways: it affects the level of steady state income and it affects the speed of convergence. Their estimates implied that the speed of convergence is considerably faster for open economies. The researchers have claimed that convergence is facilitated through international factor mobility (financial and physical capital). To Sachs and Warner, openness encourages greater efficiency in the allocation of the scarce resources of the poor economies and also promotes market competition and thus helps reduce monopolies. Also, trade is presumed to serve as a vehicle for the importation of technical innovations and improvements in total factor productivity in the poor economies (ibid.). See also Oskam *et al.* (2002) for the summary of the theoretical and empirical arguments favouring international trade/open trade development policy path for poor countries.

I am, however, curious and would like to pose a query to the relevance of lack of (sheer) openness in explaining the SSA economic tragedy. First of all how could we understand and explain the contribution of outward-orientation to growth in relation to the export comparative advantage of SSA nations, which are mostly of natural resources and primary goods? Besides, outward-orientation usually discourages growth of the dominant non-tradable sector of the nations, as portrayed by Dollar (1992) himself and the other subsequent works. For instance, prices of imported inputs for the non-tradable sectors such as chemical inputs for the agricultural sector will get expensive. Moreover, how would we provide economic advices to the possible external shock diseconomies of outward-orientation of poor nations of the SSA?

From their review work Oskam *et al.* (2002) pointed out that trade-led growth path is not promising for LDCS. The inadequate institutional and infrustructural stance in poor countries, the infant industry argument, exposure to external shock and growth instability and the biased tariff structure of developed countries are some of the anti trade-driven development path policy for poor countries, which Oskam *et al.* accounted. And this paper and that by Oskam *et al.* (2002) ask this: would trade liberalisation be taken for guarantee to stimulate even the tradable sector of poor nations without looking into the other macro- and micro-economic environments of the nations?

Openness without the development of the manufacturing and diversified export sector of poor nations would rather turn against the growth possibilities and long-term development opportunities of the poor nations of SSA (example Mundlak 2000). It will deteriorate the balance of payment and terms of trade of the poor economies. Collier and Gunning (1999a) pointed out that SSA has comparative advantage in natural resource export. And they shared prior outputs (Ibrahim *et al.*, 1996 in Collier and Gunning 1999a) that natural volatility influence export of the nations whereby its terms of trade, because Africa's terms of trade (TOT) is determined by commodity prices. Ibrahim *et al.* (in ibid.) reported that terms of trade volatility reduces the growth of Africa by 0.7% relative to that of other LDCS. Oskam *et al.* (2002) pointed out also that the contemporary trade liberalisation enthusiasm in LDCs and poorer countries would rather entail detrimental effects. They presumed that the prevailing problem of LDCs and poorer countries may not be lack of market access but a lack of supply response. Yes, artificial market measures such as over devaluation of domestic currencies would go against the economy of the poor nations. This particular measure would, for instance, delude the foreign exchange value of the exports of poor nations which are usually of natural resources and primary goods. See sections 5 and 6 for more provisions about the genesis of the trade-driven policy prescription and its infidelity and detrimental effects to the economy of Ethiopia and other poor SSA nations.

2.3. High Debt Burden/Aid Dependence

As of 1994, aid burden accounted for 12.4% of the GNP of SSA nations as opposed to 2.7% for low-income countries in general (Collier and Gunning 1999a). Aid dependence has exerted a powerful effect on African growth particularly when there are poor policy environments (ibid.). '*The debt burden has become one of the most important factors constraining recovery and development in SSA*' (Perez de Cuellar-former UN General Secretary, quoted in World Bank 1989).

There are two competing hypotheses that external debt may be deleterious to economic performance: 1) the 'debt overhanging hypothesis (DOH)', which hypothesises that high debt acts as a tax on future output and reduces the incentive for saving and investment (Krugman 1988, Corden 1988 and others in Fosu 1999); 2) and 'the liquidity constraint hypothesis (LCH), which states that the requirement to service debt reduces funds available for investment purposes (Hoffman and Reisen 1991 in Fosu 1999). In other literatures (such as Hoffman and Reisen 1991; Faini and DeMelo 1990; Fry 1989 in Fosu 1999) both the DOH and the LCH imply an "indirect" adverse impact of debt on economic growth through reductions in investment levels. Fosu, nonetheless, hypothesises and argues that even if debt is found to be inconsequential in the investment or saving function, it can still influence output growth through its effects on productivity.

Fosu examined (using an augmented production function) the impact of external debt on the economic growth of SSA countries over the period 1980-1990. Fosu's results reveal that external debt exerts an adverse direct impact on the economic growth of the poor nations of SSA. He documented that, on average, a 1% rise in net debt would reduce GDP growth by about 0.5%. SSA's growth would have averaged nearly 1.2% or nearly 50% higher during the decade of the 1980s if the external debt burden, measured as net debt, had been absent (ibid.). The researcher found a weak negative correlation between debt and investment in the region and he commended that researchers and policy makers need not concentrate on the rate of investment, as has traditionally been the case, in assessing the impact of external debt on developing economies. To him, the nature and productivity of the investment projects undertaken would be more important. He argues that d*ebt repayment obligations force poor nations to pursue short-term inefficient or less productive projects or development policies. That is, the existence of a debt overhanging would influence the nature of investment undertaken, skewing the basket of investment projects towards those yielding faster returns that are less productive. For instance, the bulk of SSA nations suffered balance of payments deficits, particularly around the early 1980s. The deficits were usually financed through relatively short-term loans, which required them to pursue projects that would foster foreign exchange faster to meet their repayment obligations. Such financing constraints could preclude alternative efficient projects with payoffs farther off in the future. Thus the country would be* *constrained to a less efficient mix of investment projects'* (Fosu 1999:310).

But, on the other hand, aid has increased and is used to institute SAP and free trade system in Ethiopia and other SSA. It may be with the goal of pursuing 'otherwise policies or visions in the region', market for rich nations whereby global capitalism (Morrissey and Filatotchev 2000; Hoekman and Holmes 1999). Not only the financial aid burden would delude development enthusiasms, such as local production and effort, in poor SSA nations, but also the attached diplomatic commitments/political preconditions would be enslaving and degenerating the economies and societies of Ethiopia and other poor African nations.

2.4. High Ethno-Linguistic Fractionalisation

High ethnic diversity is the other factor indicted for the growth tragedy of Africa. The coefficient of ethno-linguistic fractionalisation index was significant and more than two times higher than that of other LDCS (Collier and Gunning 1999a). Fourteen out of the fifteen most ethnically heterogeneous societies in the world are in Africa (Easterly and Levine 1997). Easterly and Levine claimed that ethno-linguistic fractionalisation accounts for 35% of the growth shortfalls in SSA and about 45% when combined with poor policies. The direct and indirect effects of ethnic diversity on growth are economically large, ethnic diversity alone explains between 25%-40% of the East Asia-Africa growth differential and may fully account for some extreme country cases. Ethnic diversity tends to slow down growth by making it difficult to agree on the provision of public goods and policies that foster growth. In other words, ethnic diversity leads to social and political divisions that divert attention from sound social making in Africa (Easterly and Levine 1997). Greater ethnic diversity harms growth since it leads to poor policy choice (Sachs and Warner 1997). Collier and Hoeffler (1998) found that highly fractionalised societies have greater risk of experiencing civil war than homogenous ones, (also Elbadawi and Sambanis 2000).

Nonetheless, other contributions show the opposite: ethnic-diversity would itself contribute to development if politicisation of which would have been reprobated and real democracy is effected. That is high level ethnic diversity would rather encourage growth[4] Ethnic diversity may contribute to development in that, at least, it necessitates inter-group bargaining process and competition (Elbadawi and Sabbmanis 2000). Elbadawi and Sabbmanis suggested that the processes can be peaceful if ethnic groups feel adequately represented and if the economy provides opportunity for productive activity to the public.

[4] 'Africa's ethnic diversity would actually enhance development efforts by promoting positive inter-group interactions if appropriate political framework, which focuses on participation, inclusion and consensus-building among social and especially ethnic groups is instituted' (Elbadawi and Sambanis 2000:266).

Politicisation of ethnicity, a reality in many contemporary SSA governments, impedes economic growth. For instance, colonisation and colonisers made use of and aggravated ethnic differences to realise their dream of annexing Africa and its resources. The borders of African nations were determined through a tragicomic series of negotiations between European powers in the nineteenth century that split up ethnic groups and exacerbated pre-existing high level ethnic and linguistic diversity in the region (Ake 1996; Pakeham 1991). The economy of Ethiopia, too, is victim of this politics. Both domestic politicians and European colonisers have made use of the ethnic politics in this poor nation. Ethiopian economy is suffering from the side effects of ethnic politics particularly since the last quarter of the 20th century. The economy is incurring huge human and material resources for ethnic war, ethnic political processes, etc. Rich nations and many international organisations aren't immune to these infractions.

2.5. Poor Saving and Investments

Poor SSA countries also suffer from low level of investment and saving, and poor credit facilities. Africa's investment ration is not sufficient to replace depreciated physical and human capital. SSA has experienced collapse in both investment and production (Collier and Gunning 1999a). For instance, it is reported that gross domestic investment in Africa declined steadily from about 26.5% of GDP in 1980 to 22% in 1990 and 20% in 1998 (Mlambo and Oshikoyo 2001).

Investment matters for growth and low investment rates increase vulnerability. Investment rates, an economies rate of growth and income per capita are closely related. The relation between investment and growth is bilateral. The decline in investment rates in Africa has coincided with the severe decline in output growth of the last two decades (Mlambo and Oshikoyo 2001). Mlambo and Oshikoyo argued that decline in domestic investment rates in Africa is tied in part to an unfavourable economic environment. SSA is referred to be with a capital-hostile environment.

Capital goods are more expensive in Africa than the international average (Collier and Gunning (1999b). It may sound paradoxical but the same contributors documented that the rate of return to capital in SSA is estimated to be one-third lower than that in other regions, this also contradicts the argument of Gunning and Taye Mengistae (2001). From micro-evidences, Gunning and Taye Mengistae noticed an indication of high potential returns to investment in Africa. Investment in Africa as a share of GDP was reported to be 18% as opposed to 29% on average in lower middle-income countries and 23% in South Asia. The corruption and the consequential capital flight explanation would backup the evidence and argument of Gunning and Taye Mengistae. Also, Mauro (1995) blames corruption for discouraging domestic investment/availability of capital and whereby encouraging capital flight. According to him, corruption lowers the private marginal product of capital, hence investment. Devarajan *et al.* (2001), however, explain the problem of capital flight in relation to the prevalence of low rates of return in SSA.

Others indict the IMF/World Bank policy prescriptions for low level of investment in SSA and other poor nations. The principal component of the IMF-World Bank policy package for poor nations, currency devaluation is criticised of ridiculing private investment. Real devaluation is an expenditure reducing and switching policy and thus affects private investment through various channels. Real devaluation increases the level of foreign prices measured in domestic currency and thus the prices of traded goods relative to non-traded goods in the domestic economy, bewitch depressing terms of trade and investment (at least) in the non-traded goods sector (Mlambo and Oshikoyo 2001). Mlambo and Oshinkoyo documented that fiscal deficit, domestic credit to the private sector, the real exchange rate and macro-economic uncertainties strongly influence/suppress private investment growth in poor Africa. Serven (1997) reported significant and negative impact of terms of trade on private investment. Volatility of terms of trade and narrow primary commodity export dependence ended in negative impact on investment growth recovery in SSA (Mlambo aand Oshikoyo 2001).

Devarajan *et al.* (2001) from their cross-country evidences, on the other hand, argue that investment in Africa is rather too high. The researchers pointed out that Africa's low investment and growth rates would rather be symptoms of underlying factors. They adjourned saying "higher investment in Africa would not by itself produce faster GDP growth". And they draw an interesting implication therefrom: "low-capacity utilization and absorptive capacity constraints in skill-acquisition would be critical productivity and growth impeding factors in Africa".

Hence, there are mixed opinions on the situation of saving and investment in Africa. The question would, however, be why are savings and investments low if they are so, or why are savings and investments not resulting in growth if they are already too high as claimed by Devarajan *et al.* (2001)? The explanations to these queries would be related more to institutional, governance and other economic environment factors. Devarajan *et al.* implicitly point to these factors when they say the problem is low-capacity utilisation and absorptive capacity constraints. See Section 3 for more accounts on institutional and governance constraints in the region.

2.6. Poor Education and Poor Contribution of Skilled Labour to Growth

Man is the entrepreneur of an economy. He is the one who marshals other economic factors through his expertise and innovation. In other words, the behavioural, managerial/governance and innovative/creativity inputs of the manpower of a nation highly matters for its economy. 'Ideas and ideologies shape the subjective mental constructs that individuals use to interpret the world around them and make choice'

(North 1990:111). Unlike animals (which don't consider the world but simply immerse in it), men emerge from the world, objectify it or understand and transform it with their labour (including ideas, learning, etc.) (Freire 1972). Education is supposed to cultivate and promote the understanding and idea/innovation generation capacity of men's mind, whereby to be able to transform the 'world' such as the economic world they are in. The query is: is education in Ethiopia and other SSA nations rendering these? Is the skilled manpower engaged in providing productive ideas, technologies, etc to the economics, sociology and politics of the nations? If not, why? Research information on the relation of education and growth in Ethiopia and other SSA nations is generally lacking or obscured. Some reported that the effect of education on growth in SSA is ambiguous (example Collier and Gunning 1999a).

Research is required but education/skill which is the key for new ideas and technology seems nothing to the economy of Ethiopia and other poor African nations or else its contribution is insignificant. Once more, it may be criticised for not being grounded on researched information but innovative minds and attitudes in poor SSA nations in general seem to be crippled through the Westernised irrelevant, or non-feasible education packages and banking education systems (see also Freire 1972) and awful internal skilled labour management systems and economic structures and policies. Collier and Gunning (1999a) documented faster rate of growth of the education stock in poor Africa. It should, however, be valuable to query: 'would the increasing educated manpower contribute to the economy of Ethiopia and other SSA nations? Questions like what are being taught, why (the motivations and aspirations of education) and how the pupils learn, etc., would somehow help to think over and predict the perspective. Learning to pass exams, achieve high marks and thereby ensure one's assure living and earn a name as 'good student' may not produce productive/innovative minds and manpower. Analogous to this education culture is the narrative learning character which Freire (1972) addresses. 'Narration (with the teacher as narrator) leads the students to memorise mechanically the narrated content.' Such system turns the students in to 'containers or receptacles to be filled in by the teacher[5]', says Freire. And to Freire, such education style is 'an act of depositing, in which the students are the depositories and the teacher is the depositor' (p. 45).

Not only the educational system and the learning culture but also the general economic poverty, lack of incentive for innovative attitudes and the management/use of the skilled manpower would be highly blamed for the poor contribution of skilled labour to economic growth in Ethiopia and other SSA countries. <u>The government of Ethiopia may need to be concerned of not only increasing the education stock but also screening what is being 'stocked'</u> i.e. the quality of education (including the contents, system of learning and the motivation).

[5]'The more completely the teacher fills the receptacles/students, the better a teacher he is. The more meekly the receptacles permit themselves to be filled, the better the students they are' (Freire 1972:45).

And more critical focus on and research in the education and skilled manpower management in Ethiopia may be worthwhile. How is the developmental efficacy of education in Ethiopia and other SSA, at present? And how was it in the past? How was and is the attitude and management of the kings and leaders of these countries towards learning, for example how was/is the motivation scheme of political bodies to the creativity of citizens and human capital generation? Is skilled labour scarce in SSA or is the contribution of this resource to growth is meagre or zilch? But if skilled labour were scarce, the return to skilled labour would have been relatively high but that is not the case in SSA (Bigsten *et al.*, 2000).

Actually, a non-contributing education capital is valueless. Is that why education/skilled labour is not contributing to the economic and social development in Ethiopia and other SSA? Why is it that innovative people are not coming up from SSA? Is it due to the quality of education and or education system, the natural intellect/IQ endowments, socio-cultural influences, lack of motivation, poor skilled labour use and management system or what? In other words is that because of natural-destiny or cultural and other artificial bondage? In SSA the education and the teaching resources are increasingly Western-based. Pupils are trapped in the education package which could be irrelevant to them/at variance with their experience and comprehension, which would either be less applicable in the context of their nations or it is according to rich nation's national and international interests.

In general, economically poor scientists (particularly youngsters) and governments in poor SSA nations such as Ethiopia are not only made skill and knowledge dependent but they are also closed off creativity and scientific enthusiasm, ownership and heritage. Poor nations will not entertain the benefits of endogenous growth, learning by doing. Their economies will keep on devoid of technological inputs and the nations will remain economic, political, etc., protectorate. Poor nations are also intimidated for their technological and skill backwardness. In the new global economic and political regime, economic poverty begets 'knowledge and creativity poverty', and vice versa (see figure 2.1). Professional and scientific ideas of scholars in poor nations are never appreciated and appropriated in the economic, social and other policies of poor nations themselves. Only the money-backed but may be inefficient and in most cases deleterious Western prescriptions and assertions are taken for granted in these economies. The nations will suffer not only from such policy failure but also the material and commitment debts which are tied/attached with the prescriptions, as mentioned in the case of aid burden.

Implicitly, poor country students are supposed to be programmed with the packages of thinking and learning booked for them. Banking? We bank our mind! What Western promotes and sometimes does (including tradition and religion) may, however, be less important and deleterious in some cases. Poor nations need to rethink, evaluate and make what is relevant for them. 'Someone's eye will never be an eye for the blind'. For instance, the spirit of globalisation is free competition, in which 'every eye will be serving the owner; it will never be concerned with serving the blind'. Poor nations need to stand by themselves and should be awake and be prepared to pursue their interest in the new economic and technology-based colonial move, all starting from education. But where to break the circle? That may be the first priority to work on and develop defying strategies. This isn't easy to answer. But, the determination to appreciate one's own resources (skill, opinions and outlooks) would be the first step to be taken.

In sum, it is the premise of this paper that the educational system and package made available to the new generation of Ethiopians and other SSA is not geared to provoking creativity and application; rather poor country students whose living depends on meeting educational requirements have evolved "mechanical system/strategies" to meet the requirements of the 'narrative' education systems and thereby securing their living. It is also presumed that the governance system puts no/less demand and motivation for education and skilled labour, whereby human capital would engage in skill-effecting and innovative attitudes. These all require further research, however.

Figure 2.1. The Vicious Lineage of Economic Poverty and 'Skill Poverty' in the contemporary SSA and other Poor nations under the Globalisation Regime

2.7. Geographical Variables

Geographical remoteness (landlockedness), climatic, etc. factors are also elicited to be among the growth shortfalls of SSA. Sachs and Warner (1997) estimated that a landlocked country's growth is on average 0.58 percentage points lower than a country with access to the sea. Landlocked position reduces the benefits of international trade by adding to transportation and insurance costs (Bloom and

Sachs, 1998). Besides, diplomatic and political commitments for port access may influence the economy of the landlocked nation. International politics, however, isn't willing to look into such immediate and may be easy problems, while it is putting huge political and attitudinal teachings and persuasions to effect free trade in the globe. The 'new cut Ethiopia' is already more than a decade old suffering from port and other duty charges and diplomatic confrontations after being devoid of sea access. How much would this squeezing (which is the colonial residue and manipulation) have affected the economy and future of these people, the Ethiopians?

Sachs and Warner (1997) report that a tropical country's growth is on average 0.85 percentage points lower than a country outside the tropics. Africa (particularly SSA) is referred to be distinctive with respect to climate, location and comparative advantage. SSA is predominantly tropical with semi-arid climate and poor soil quality (Collier and Gunning 1999a). According to Collier and Gunning, SSA is confronted with risky agriculture. One-third of its available land is too dry for rain-fed agriculture and half of the rest is marginal. Tropical conditions worsen agricultural productivity, morbidity and life expectancy (Bloom and Sachs 1998). Collier and Gunning reported deteriorating trend of rainfall in Africa since the 1960s though they are stuck with the evidence to infer its effect on growth. The researchers termed this problem as natural volatility. But who is willing to confess that the deterioration of the climatic resource would be debt of DCs, the catastrophe caused through global warming and other environmental disturbances by the indulgences. (see, for instance, Perman *et al.*, 1995; Pearce and Warford 1993).

The natural resources (soil, climate, water, etc.) of Africa supported its population since time immemorial. Till the century we are in, Africans have been direct dependant on their natural economies. Technological augmentation (added value) to the naturally given economy is nill or inconsiderable. Ascribing the Africans' growth tragedy to poor natural bio-physical endowments simply contradicts with this plain truth. Even some other researchers, which is rather pragmatic, indict the high resource endowment of Africa for the tragedy of its economy. It is reported that large endowments and exports of primary products appear to be negatively related to subsequent economic growth (Sachs and Warnner 1995b). Sachs and Warner (1997) found out that higher initial endowments of natural resources are correlated with slower growth. They estimated that an increase in the initial share of natural resource exports in GDP from 10 to 20 percent reduces subsequent growth by 33% per annum. It is paradoxical but the researchers are pro-openness which would simply encourage natural resource export in SSA.

2.8. Other Growth Shortfalls of SSA

Well, there are yet very many factors that account for the growth tragedy of SSA as can be seen from the existing literature. It is what J.W. Smith (1989) tried to express when he said '<u>...they look at everything except the cause.</u>' Here below I briefly describe other three categories of growth shortfalls which we can learn from existing literature: poor transportation and other infrastructures, poor health/demographic factors, and lack of financial depth.

Poor transportation and other infrastructures: It is apparent that infrastructures (such as transportation, communication, market facilities, energy supply, water supply-including irrigation, etc) are bottlenecks in SSA. Africa has the poorest infrastructure in the world (Collier and Gunning 1999a; see also Oskam *et al.*, 2002). It was not possible to get documented information but infrastructure problem would be crucial in Ethiopia too. For instance, Ethiopia would not bother about rainfall if it had few irrigation infrastructures in the rift valley and along the Nile (*Abay*), which donors and 'donated' experts may not be pleased to hear.

Poor Health and Demographic Factors: Poor health of the productive labour force and poor demographic characteristics are also mentioned as factors that contribute to the tragedy. Poor health affects growth by reducing labour productivity and life expectancy (Sachs and Warner 1997). Sachs and Warner also reported that youth-dependent population in SSA is growing as rapidly or more rapidly than total population, thereby reducing GDP per capita growth. Collier and Gunning (1999a) also indicated the prevalence of poor health services in the region though the effect of this and other under provisions on growth are reported as lacking evidence. More currently, catastrophic epidemics such as HIV/AIDS not only affect labour productivity through the effect on life expectancy and labour efficiency but more seriously deludes the general public behaviour-'closes off people's future hope and concern', therefrom duping saving, investment, concern for long-run economic and socio-political behaviours.

Lack of Financial Depth: Africa has 37% lower financial depth than other developing areas (Collier and Gunning 1999a). Lack of financial depth is estimated to reduce growth by 0.3% in SSA (Easterly and Levine 1997). Collier and Gunning attributed the low holding of currency to the large share of the subsistence economy in SSA. And they presumed that lack of financial depth is more of a by-product of lack of openness than of financial policies, but at the same time they seem encouraging financial liberalisation which may not be feasible in the stance of poor nations, due to the governance and institutional deficiencies. Financial depth may be low or high in the economy of Ethiopia and other SSA Nations. It is not, however, intuitively clear nor expounded by the contributors how financial depth would relate to growth. Besides, the Ethiopian economy both during its socialist era and the contemporary regime would have been entertaining reasonable size of financial credit facilities and also external aid/loan.

3. ON THE THREE INTER-LINKED CHOKES OF THE ETHIOPIAN AND OTHER SSA ECONOMIES: INSTITUTIONS, BAD GOVERNANCE AND EXTERNAL INFLUENCE

> Africa's development problem is a crisis of governance (World Bank 1989).
>
> ...African development crisis is indeed largely of a policy crisis (Englebert 2000a). ...Interpersonal trust and civic co-operation are said to be more important in facilitating economic activity where formal substitutes (political governance) are deficient (Knack and Keefer, 1997, pp 1283-1284, con). Nonetheless, the bad governance in such countries damages inter-individual trust and civic co-operation itself, i.e. deteriorates public social capital, whereby raising economic transaction costs and erode investment and innovative attitudes, hence growth tragedy. ...'Go Dutch' kind of simple 'institutional technologies' would have liberated the hungry Ethiopian-man if his mind and heart would not have had to entertain anti-saving, anti-money making and so on cultural clogs'. The prerequisite being liberation from external arrogance and warfare.

Institutional quality, good governance and designing socio-economic policies in the perspective of the national long-run growth are crucial for the sustainable growth of a nation. The basic micro-economic assumptions, the rational behaviour assumption and the assumption that output is at the limits given by the available resources and technology, implicitly assume optimal institutional qualities and governance (Olson *et al.,* 2000; Knack and Keefer 1997). Olson *et al* pinpointed that structure of incentives given by the institutions and economic policy regimes (the governance of a country) are important determinants of growth of productivity and economic performance. Poor institutional framework in less developed countries results in both high costs of transaction and using technologies that employ little capital and don't entail long-term agreements (Ibid.). Olson *et al.* attributed the growth success of the three East Asian countries and the analogous sluggish/stagnation experience of SSA and many other developing nations, to differences in the quality of governance and institutions. Also, the emergence of modern growth in the West rather than in SSA and other parts of the world has been attributed to differences in quality of governance (Rosenberg and Birdzell 1985 in Olson *et al.,* 2000).

Nonetheless, in spite of the recognition that the privatisation/growth success of rich nations is largely due to the quality of their institutions and governance, and SSA nations are recognised to be deficient in both these, economies of the latter are commanded to take up mass privatisation and free market policy systems and thereby 'convey economic revolution' in the nations. Since the last decade, the institutional and governance ill economy of Ethiopia is being churned by "external" and haphazard economic and social policy prescriptions, privatisation and free market policy.

This section deals with the theoretical conceptualisations and empirical evidences on the institutional and governance environments in SSA in general and Ethiopia in particular. As mentioned earlier, empirical evidences related to the Ethiopian economy are crucially lacking. Attempt is, however, made to provide analytical connections, sometimes, taking into account some apparent truths of the Ethiopian economy.

In economics, though the understanding that institutions affect economic performance is hardly controversial, even among the neo-classical economists (North 1990), the economic conceptualisation of institutions and governance, is yet evolving. Concepts and terminologies are not either standardised. In literature, different concepts/terms are used to describe rules of conduct which govern behaviour of individuals and other actors including the government (Oskam *et al.*, 2002). Oskam *et al.* attempt to provide a comprehensive conceptual framework to the various interrelated "institutional" concepts, including institutions, governance, social capital, etc. In their contribution, the concept of governance is presented to be both part and cogent of institutions. This paper, however, doesn't pay much attention to the connections and distinctions of these concepts. Emphasis is made to present literature knowledge about the importance of institutions in economic performance (Section 3.1). Extra treatments to governance-related institutional economics are provided in section 3.2. National economic and social policies of Ethiopia and other poor SSA nations are largely dictated by Western nations. National institutional deficiencies, domestic political/governance failures, contemporary global policy and economic interests, historical contingencies, etc., would be responsible for this. A glimpse account of this constraint and its potential drawbacks are provided in Section 3.3. The domestic institutional ills, political failures and 'external influence' on national policies seem causally connected and reinforcing each other and ever impeding the economies of SSA. And in Section 3.4, attempt is made to conceptualise the synergy and interplay of these factors, in entangling the growth of poor economies, such as the Ethiopians'.

3.1. Institutional Economic Problems Matter for the Ethiopian and Other SSA Economies

Institution[6] is a broad term which would cover a wide range of social factors (governance, routines, values, cultures, etc.) which govern human behaviour in economic and other social relations and decisions. Institutions include both formal[7] written rules (constitutions, laws, and regulations that are enforced by judges, courts,

[6] "Institutions are rules of human interaction that constrain possibly opportunistic and erratic individual behaviour, thereby making human behaviour more predictable and thus facilitating the division of labour and wealth creation. Institutions to be effective, always imply some kind of sanction for rule violation' (Kasper and Streit 1998:30).

[7] Formal politically authorized/delegated structures and bodies. Kasper and Streit refer these 'external institutions': 'They *are imposed and enforced from above, having been designed and established by agents who are authorized by a political process*' (Kasper and Streit 1998:31).

police, bureaucracy, etc.) and informal[8] or unwritten codes of conduct (such as norms of conduct and historical traditions or religious precepts that are enforced by business and social groups, the church, the family, etc.). An essential part of the functioning of institutions is the costliness of ascertaining violations and the severity of punishment. Institutions structure incentives in human exchange: political, social and economic. (see North 1990; Shirley 2002).

Nonetheless, as indicated earlier the interest here is not to develop conceptual framework of the concepts used in the literature[9]. The interest is rather to present literature-based accounts that institutions matter for economic growth and the economy of Ethiopia and other SSA economies are prone to institutional bottlenecks. Though analytical framework to integrate institutional analysis into economics and economic history is yet evolving, the understanding that institutions affect economic performance is hardly controversial. Institutions[10] are the humanly devised constraints that shape human interaction. Institutions affect the performance of the economy by their effect on the costs[11] of exchange and production (see for instance North 1990 and Shirley 2002). North (1990) argues that the overall institutional frameworks in the Western countries are responsible for their economic achievements. To North, 'least developed countries (LDCs) are poor because the institutional constraints define a set of payoffs to political/economic activity that don't encourage productive activity' (North 1990:110). North stresses that institutions are the underlying determinant of the long run performance of economies. Institutions make markets work well. Honesty and trust in exchange make differences and do pay, argues North. Institutional environments evolve to complex and retain more of formal components.

Formal institutions facilitate the development of these complex, impersonal markets better than informal institutions (Shirley 2002). Investors are more willing to invest in impersonal markets where property rights are more protected, contracts are less costly to enforce and government policies are relatively credible (Keefer and Shirley 2000 in Shirley 2002). Shirley (2002) mentioned at least three features where protection of property rights, enforcement of contracts and credibility of governments in a country could be assumed trustworthy: a) when laws are in place for registering and enforcing rights and obligations; b) when constitutional, legislative and electoral rules are binding to change laws arbitrarily; and c) when legal and bureaucratic

[8]There are rules of human interaction and individual conduct which evolve from past experiences and social learning, and are signalled/instituted in human behaviour and relations as customs, social and ethical norms, culture, tradition, religious beliefs and informal associations (referred also internal institutions by Kasper and Streit 1998).

[9]See Oskam *et al.*, 2002 for a conceptualisation framework of institution-related concepts.

[10]North (1990) viewed institutions and organisations synonymous to the rules and the players of a sport game. To North, like institutions, organisations (political bodies, economic bodies, social bodies and educational bodies) provide a structure to human interaction. Organisations influence evolvement of institutions and vice versa? Organisations are agents of institutional change. We can't see, feel, touch or even measure institutions; they are constructs of the human mind.

[11]Together with the technology employed, institutions determine the transaction and transformation (production) costs that make up total cost.

systems function effectively, efficiently and honestly. How are these features in Ethiopia and other poor SSA nations? Does Ethiopia render institutional incentives to investors (both domestic and foreign)? If not, how would mere declaration of free trade and mass privatisation bring about efficiency and growth?

Ethiopia and other poor SSA nations seem deficient in appropriate institutional incentives (both formal and informal). In general, the nations are confronted with: a) lack of the relevant individual commercial behaviours (informal institutions-values, norms and beliefs, where political instability and social unrest may be partly responsible for these); b) failure in the general rules of society (the general jurisdiction and the bureaucracy), inadequate institutional arrangements (poor governance structure), bad governance and low social capital (poor trust, voluntarism, networks, etc., both in the society and between the public and the government)[12]

Collier and Gunning (1999a) reported that public and civic capital are one of the important growth shortfalls of SSA. That is the institutions of government that facilitate private activity, such as the courts, financial institutions, infrastructure provisions, etc., are lacking. From their comparison of ill-institution nations (including SSA) and nations with good institutional environments, the institutional quality index of Sachs and Warner (1997) was associated with an extra 0.28 percentage points economic growth per year.

Further account on governance/political failure-related institutional bottlenecks in Ethiopia and other SSA nations is provided in the next sub section (3.2). Let me now provide a brief account of the importance and characteristics of informal institutional economic factors (individual values, traditions, norms, religions, etc.) which are often overlooked by both the impractical policy issuers (externals) and the governments of SSA themselves.

Informal Institutions: North (1990) documented that in the early development stage of countries where transactions are face-to-face and reputations of transacting parties are well known, informal institutions work fine, at least at village level. In these traditional societies/markets personal ties, voluntary constraints, ostracism, etc., are used to enforce contracts and prevent people from taking advantage of one another (ibid.). Informal institutions which are important even in the economies of the Western World (where the economy seems to be ordered by formal laws and property rights), evolve from historical heritages, religious and traditional learning (example Nabli and Nugent 1989; North 1990; Kasper and Streit 1998;). 'Informal institutions/constraints come from socially transmitted information and are a part of the heritage called

[12] See Oskam *et al.*, 2002 for the distinction and interrelationship of these institutional concepts.

culture[13] (North 1990:37). This heritage influences the way the mind processes information. 'The way the mind processes information depends upon the brain's ability to learn by being programmed with one or more elaborately structured natural languages that can code for perceptual, attitudinal and moral or behavioural as well as factual information' (Johansson 1988 in North 1990:37). 'Culture provides a language-based conceptual frame work for encoding and interpreting the information that the senses are presenting to the brain' (North 1990:37'. North argues that processing information is the key to understanding a more complex behavioural pattern (of the society of a nation) than is derived from the expected utility model.

Hence, the cultural knowledge and values influence the individual and social behaviour in a society. These are sometimes yardsticks against which new information (such as free market signals) are evaluated by individuals. Cultural 'constraints' influence the processed outcome of such information. For instance, the 'money is blood' cultural learning of Akan ethnic group of Ghana (see van Dijk 2000) programs the people from such culture to go after money. Van Dijk found out that for migrant Ghanaians, earning money for oneself is not legitimate-their cultural commitment forces them to send money back home. Money at the centre of social relations and self-well-being institutional learning in the Western world in general could develop the neo-classical micro-economic man (rational behaviour). Such cultural values may 'energise' people to work more, invest more, be creative, etc. Olson *et al.* (2000) argue that in some countries cultural characteristics make people more innovative and willing to take risks and that takes the credit of rapid productivity growth.

On the contrary, some cultural teachings may make people 'anti-growth' or much different from the micro-economics man. There could be some traditional goals and values which discourage innovative/productive activities, appreciate inefficient consumption, etc. I presume that some of the Ethiopian cultural values and constraints could be partly responsible for the degeneration/stagnation of the economy, etc. It needs to be researched but here below I present some of the possible anti-growth cultural constraints from the Ethiopian cultural heritage:

a) *anti-technological advance cultural transfers:*

- The traditional black smith skills would have advanced to the modern iron, electronic, processing machine, etc., technologies and companies if the culture would not have betrayed such craftsmen and enthusiasms, by calling them (*budda*), person with evil eye derogatory (*Ketikache*) /black smith, etc.
- The great early traditional pottery intelligence would have advanced to the modern glass, plate, cup, etc technologies and factories if the cultural bias would

[13] 'The transmission from one generation to the next, via teaching and imitation, of knowledge, values, and other factors that influence behaviour' (Boyd and Richerson 1985 in North 1990:37).

not have betrayed it recognising it as the work of *budda*, potter (*Shekila seri*), etc.

- The great traditional plumber skills would have advanced to the modern wood technologies and gigantic companies if there were not cultural pooh-poohs;
- The traditional Ethiopian-man would have advanced to the commercial modern Dutch-man if the thong-bitter (*mechagna-nekash*), swindler (*achiberbarie*), deceiver (*gurage*), etc., cultural precepts would not have poisoned such evolving minds.
- And so on.

The forgotten sophisticated thousands of years old monuments and heritages of the nation lying in different parts of rural Ethiopia (such as the unexplored city of Axum, the rock-hewn churches of Lalibela, the Fasileadose's palace in Gonder, the rock-hewn church of Wokro in South Gonder, etc.) are unbelievable for the 21st C. Ethiopian; it is a wonder that the nation had had such sophisticated technologies to build these.

'Evolving Ethiopian minds' receive cultural messages which wedge war against technological advances; hence, our evolution is downstream/backward. The traditional Ethiopian values cultivate evolving minds to go for heroism. The development of such values, seems, however, in response to the arrogant and evil foreign aggressors which our ancestors had had confronted. The aggression is continued to this day in one way or the other. This cultural value, however, has got its own contribution: 'the independent, liberated and self-esteeming Ethiopian mind' is the outcome of such commitment of our ancestors.

b) the culture transfers messages of extravagancy in consumption, taboos in food habits, etc. and the trade warfare

The question to SAP and free international trade issuers and domestic enforcers would be how would the illiterate and/or ill-cultured man (such as the rural Ethiopian man) be expected to explore his economic niches and marshal his economic resources under competitive international market economy paradigm? Well, the natural move for this poor natural man would be to patiently watch what is going on and swank about his ancestral history, values, heritages, etc, whereas 'others' will be invading all the economic opportunities meant for him. Hence, if the race moves smoothly, the commercial-minded Westernised and better off handful of domestic individuals and the Western entrepreneurs/companies will reap/engulf all the economic advantages/resources of the poor illiterate traditional Ethiopian-man. The Ethiopian man and society will sink into dependence and slavery. He will, ultimately, be devoid of resources and power ownership. The Ethiopian politicians and scholars will surrender and be subjugated by the winners in the race, Westerners and the Westernised. Ethiopia will be handed over to the Western entrepreneurs and powers. The process will end up in an equilibrium where the traditional illiterate Ethiopian man will be relegated to semi-slavery living in a "colonised" state. The race winning

Western nations will cherish lordship and colonial post as in the era of colonialism and slavery.

3.2. Bad Governance/Political Failure

SSA states are accused of being divorced from the people they are supposed to lead. The sates are blamed for lacking legitimacy (Englebert 2000a). Englebert asserted that state creation in post colonial SSA was exogenous[14] to the societies, and the states suffer from 'a dichotomization between power and statehood' (Englebert 2000a:1823; also Collier and Gunnineg 1999a). And the ruling body has become a segregated elite of political entities and handful of allies with all the political and militaristic authority trying to introduce/impose itself into the society in which it is not embedded and from which the 'statehood' lost loyalty and trust. The post colonial state of Ethiopia may not be assumed to retain these features in that the nation has never been colonised except for the five-year occupation by Italy from 1928-1933 Eth. Calendar. It would, however, be argued that the country has been experiencing dichotomised statehood due to the direct and indirect influences of the past and present international politics. The coming to power of the military regime as a result of the Ethiopian revolution and its subsequent overthrow and replacement would be comparable to power seizure process/state formation of the post colonial SSA African states.

What implication does state dichotomization in SSA have to the leadership itself and the economy? Well, the statehood in SSA has been described as growth inimical. This in turn is attributed to the nature and origin of the states themselves, as discussed earlier (Englebert 2000a; Collier and Gunning 1999a and others). Englebert (2000a) voiced that African states are neither related to pre-colonial institutional forms of sovereignty nor protectorates. They are in a state available to be appropriated by colonisers and exogenous powers. Lack of historical continuity of the African states from the pre-colonial to the post-colonial period constrains the options available to the African policy makers themselves. And for reasons of survival, the ruling elite/states of post-colonial SSA nations resort to neo-patrimonial policy regimes and rules of act[15]. That is, 'the leaders care about their power and want to maximise their time in office', at the expense of economic growth and long-term national interests and opportunities (Englebert 2000a:1823). The states pursued rent

[14] ... By and large, they are exogenous institutions superimposed over pre-existing political structures and inherited by domestic but Westernised elites at independence (Hyden 1983; Whitaker 1991; Badie 1992; Davidson 1992; Young 1994, in Englebert 2000a:1822).

[15] ...*A propensity for ignoring one's own institutions and for resorting to corruption, clientelism, nepotism, regionalism and other forms of factionalism (Sandbrook 1972; Medard 1982; Jackson and Rosberg 1984; Joseph 1987; Lewis 1996; Bratton and van de Walle 1997*, in Englebert 2000a:1824). *The point of these policies is to create the foundations of some instrumental legitimacy, to substitute patron-client links for the lack of moral right to rule, to replace the state with an informal web of ad hoc political alliances (Bayart, 1993* in ibid.*), and thereby to provide the regime with a semblance of social foundations* (ibid. pp. 1824).

seeking and use of economic policies for the acquisition and maintenance of power. Neo-patrimonial pathology/rent-seeking privileges current consumption over accumulation and distortion in resource allocation. Rent-seeking reduces the sympathy for community benefits and creates long-run growth tragedies (Easterly and Levine 1997:1241). Also, being insulated from the mass of the rural population and having only limited legitimacy, the governments of independent Africa were described to be acutely exposed to pressures from their own narrower base of supporters, hence resulting in high incidence of corruption and adaptation of damaging economic regimes. This raised the benefits to the minority while raising the costs borne for the majority of the population, such as costs of distortions in resource allocation (Collier and Gunning 1999a).

Consequently, the poor incentives inherent in the countries' policy regimes and the related institutional failures constrain the nations from attaining the maximum possible output from available resources and technology. In the neo-patrimonial policy regime, firms and workers of poorly governed countries such as Ethiopia and other SSA nations will be short of the motivation/incentive to efficiently use available technologies and physical capital, as well as to engage in innovative and saving attitudes, whereby the economy fails to operate at the neo-classical economics presumption-'output is at the limits given by the available resources and technology, efficient frontier'. Above all, the economic agents/the people in poor African countries often experience insecure property rights, unreliable enforceability of contracts, etc. Besides, there is low level of civil liberties in these nations, such as denial of the channel of protest when its interests are threatened (Collier and Gunning 1999a). These affect, directly and indirectly, the short-term and long-term economic and technological advancements and behavioural patterns in the nations.

In sum, many, particularly recent, economists and economic historians largely blame the African statehood for the growth tragedy of the economies they are responsible for. 'Africa's development problem is described to be a crisis of governance' (World Bank 1989 in Englebert 2000a:1831). Englebert claims capable of dismissing the impact of the African dummy on growth, by introducing state legitimacy dummy. According to his estimation, state legitimacy contributes more than 2% to annual GDP growth. And Englebert concluded providing this motto: 'African development crisis is indeed largely of a policy crisis'. Poor governance (failed political institutions) has also been shown to be one of the three factors causing civil war with the consequential economic deterioration in Africa (Elbadawi and Sambanis 2000). Poor countries tend to have corrupt, cumbersome bureaucracies and to be politically unstable (Mauro 1995:706). 'The extreme case of such non-co-operation among social groups results in civil war' (Elbadawi and Sambanis 2000:265).

Quality of governance has got substantial impact on growth of investment and productivity. Olson *et al.* (2000) have argued that good governance is a necessary condition for poor countries to track down the economic development elsewhere.

Some other economic historians have also documented that differences in governance and institutions are crucial for explaining innovation (Mokyr 1990; North 1990; Rosenberg and Birdzell 1985). Malfunctioning government institutions constitute a severe obstacle to investment, entrepreneurship and innovation (North, 1990). Low security of property rights over physical capital, profits and patents may reduce incentives and opportunities to invest, innovate and obtain foreign technology. Cumbersome and dishonest bureaucracies may delay the distribution of permits and licenses, thereby slowing down the process by which technological advances become embodied in new equipment or new productive process (Mauro 1995).

3.3. External Influence

During the slavery and colonial times, nearly all African states and societies were deprived of not only liberty, sovereignty and resource ownership but also humanity, by colonial powers and aggressors. Ethiopians fought not to lose these and because victims of much human and economic holocaust. Colonisers have never publicly acknowledged the truth concerning slavery, slave trade and colonialism and atrocities committed by them. The colonial sabotage on Africa and its residues ever churn and clog the politics and socio-economics of Africa. '*Granting independence to colonies did not change former bosses' mentality. They always perceive themselves as those who know. The powers have never ceased to believe that the new independent countries should rely on them and apply their recommendations. After so many broken promises and betrayals one would have believed that it would be otherwise. But in fact these countries continued to follow the advises given to them because of the money which accompanied them, not because the leaders of the poor African states really believed in the prescriptions. ...The colonialist mentality remained feeling certain that they know better than the developing countries, as to what is good for the poor African societies*[16]'.

Policy making and implementation in SSA are manipulated from outside (see example Jenkins 1997; Maclean 2002). Most SSA countries are only nominally independent. Maclean (2002), for instance, argues that failures of national governments in Africa (example the crisis of Zimbabwe) are not just caused by bad leadership; they extend beyond the states and the national borders (the international political economy, non-state and informal as well as international and transitional dimensions). In this regard, mass privatisation, free market economy, and other policy prescriptions are imposed on Ethiopia and other poor nations. Many contributors discredit the relevance of free market policy in the spirit of globalisation to poor nations like Ethiopia, some even describe it as deleterious. Remote and landlocked SSA nations won't benefit from the globalisation regime (example Ayogu and Fosu 2002; Lemma Woldesenbet 2002; Morrissey and Filatotchev 2000). The push for competition, deregulation, privatisation and open capital markets has undermined

[16]Joseph E. Stiglitz (www.waltainfo.com/profile/InfoArticles/2002/April/Article3.htm).

economic prospects for many millions of the world's poorest people (Galbraith 1999). Such policy misdirects poor economies. Imposition of the infeasible trade-driven development policy on poor economies prevents poor people from eating, and fosters instability directly or indirectly (Galbraith 1999).

The current free international trade economic order undermines national sovereignty, and is geared to culminate in last century's codifications, legislative power of national states (example Moss 1995; Bagwell and Staiger 2001). 'The structure of international trade is determined not only by market forces, but also by the political objectives of states. Weak states participate least in the open international trading system. The strong states that do participate channel trade largely within regional trading blocks' (Pelagidis and Papasotiriou 2002), hence remain better off and make their economies secure.

3.4. Recurrence of the Growth Tragedy of SSA in Reference to Poor Governance, Institutions and 'External Influence'

The chronic underdevelopment and poverty of Ethiopia and other SSA nations seems to be rather mysterious and obscure in the literature. As mentioned earlier, some critical scientists point to rather apparent causalities, history (such as Englebert 2000; Maren 1997) and institutional/governance deficiencies (such as Englebert 2000; Olson *et al.*, 2000; Collier and Gunning 1999a and 1999b; Easterly and Levine 1997, etc.). But what explanations would be provided for the institutional and governance deficiencies in the region? In the literature, at least, the state legitimacy problem in Africa is traced back to the colonial and slavery period in the region (example Young 1994; Easterly and Levine 1997, etc.). The aggression also left the region with a shattered socio-economics and human capital resources. For instance, Ethiopians had to put all their resources and energy to defend their sovereignty and national territory while the Westerners were carrying out industrial revolution. Tens of thousands of Ethiopians were massacred by foreign aggressors; the nation confronted aggression at different times by such powers as Great Britain during the time of Yohannes III, the Turks (during the time of both Yohannes III and IV), the Italians (from the time of Emperor Menelik till King Hailesilassie I), etc.

In sum, colonialism left SSA (including Ethiopia) with a devastated economic, institutional and human resources. The general devastation of the region coupled with the related state legitimacy problem and Westerners vested interest in the region embroiled post colonial SSA sates to be linked to Western powers. Hence, policy making in the region remained foreign controlled and hitherto poverty and human scar prevails in SSA nations. And one can conceptualise a kind of vicious circle (Figure 3.1, for instance) concerning the chronic poverty and underdevelopment in Ethiopia and other SSA nations.

Either on grounds of self-interest and/or wrong conceptualisation of economic problems and knowledge, Westerners have continued imposing impractical socio-economic policy prescriptions and diplomatic influences on SSA, and the nations are ever degenerating. And as it has been indicated earlier, the chief growth constraint in Africa is related to poor policies, bad governance and institutions (Collier and Gunning 1999b:20). It should be noted that, in contemporary times, the external influence on Africa, is through socio-economic and political (including state formation) policy making and imposition. Growth economists (such as Englebert 2000; Oslon *et al.*, 2000) are able to decode the mystery of the African dummy, in cross-country growth regressions, by controlling the effects of bad governance/institutions, as discussed earlier. What will happen, however, to the economies of Ethiopia and other poor SSA countries if the governance/institutional problem is decoded in the real case, as we do in the regression algorithms? In the real case, nonetheless, Ethiopia and many other SSA countries are wedging in a kind of chronic ever degenerating socio-economics, a dummy which evolves every time with a further deteriorated economy and socio-economic environments[17] (see Figure 3.1). These ill-governance economies go for neo-patrimonial policy regimes, i.e. both the government and the therefrom discouraged entrepreneurs pursue inefficient production and consumption paths. Citizens and investors will not dare to invest in economic activities with medium and long-term profit functions, such as factories which demand high construction capital investments, high capital equipment, technology generation and research. Hence, the economy will largely be based on natural resources and primary goods. And the economies will in turn suffer also from resource exhaustion, huge cost of resource misallocation and loss of the spill over positive effects of development (technological innovations-such as learning by doing, capital accumulation and investment, etc.)[18] and appropriating the short-term and long-term economic opportunities (comparative advantages) from the international economy.

Would ill governance/social capital, etc. that SSA countries are experiencing, be assumed to benefit from development trickle down effects of international trade, or should they decode these problems first? In other words, how would the Ethiopian and other SSA economies which depend on inefficient economic ventures and 'entrepreneurial behaviour' involve in trade (according to their real economic comparative advantages) and benefit from the development trickle down effects of international trade? Would trade help these countries to be able to switch to efficient development path sooner or later? How would international trade intervene and break, for instance, the dummy circle portrayed in Figure 3.1? Would international trade contribute in addressing the governance dilemma and the ever eroding civic co-operation in poorer countries for instance? Or will it (the free trade) simply reinforce

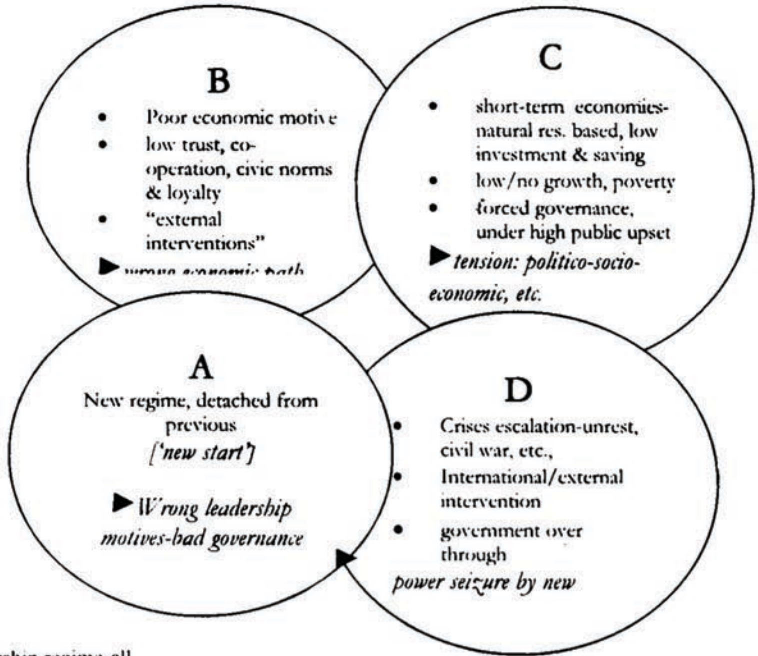
[17] As institutional inefficiency persists over time, bad institutions in the past may have played a considerable role in bringing about low economic growth, thus leading to a worsened scenario (Engelbert 2000).

[18] Economists show that 'accumulation of both human capital and physical capital that improves the overall productivity when the economy grows (Arrow 1962; Romer 1986; Lucas 1988, in Mundlack 2000:213). Unfortunately, the ever underdeveloped SSA countries are not benefiting from such externalities of economic growth.

and repeat the vicious circle?

The problems have to do with attitudes and attributes of individuals and social groups (behavioural): loss of interest/hope in future life/economies (loss of vision), low public loyalty, low inter-group co-operation, etc, due to mainly political ills and bad governance. It is a question of addressing domestic social despairs-discouragement, governance and interests (of individuals and societies). Olson put it rightly when he says: 'a stagnant low income country could have the same access to the world's technologies and advantages as a rapidly grown one, but because of poor governance/institutions its firms and workers do not have the incentives to use available technologies and advantages (capital, labour, etc) efficiently' (Olson 2000:347). The issue in the economies of Ethiopia and other SSA countries is improving governance and building social capital and public behaviour. Overlooking these and prescribing policies will simply reinforce and repeat[19] the vicious circle, such as Figure 3.1.

[19]The governance of some countries is quite unstable, but often this instability also recurs, so that firms and individuals must endure continuing uncertainty about their rights to property and contract enforcement as well as about the policy environment (Olson *et al.*, 2000).



A = New leadership regime-all over again, bad governance
B = the Economic Environment and the planning;
C = Temporary stability;
D = Eco-political recession and chaos

Figure 3.1. Sketch of the Politico-Economic Vicious Circle in SSA
[The "A-B-C-D" Politico-economic Dummy of Poor SSA Nations]

4. THE GENESIS OF THE TRADE-DRIVEN DEVELOPMENT POLICY AND ITS IMPOSITION ON POOR ECONOMIES SUCH AS THE ETHIOPIAN'S?

"...The kind of knowledge we can hope to have of the growth process is determined by what we think economies and economic process are alike.... We are usually fairly confident that we can get law-like knowledge of processes in the natural world, whereas we are less sure we can do so of the social or political world. ...Part of the reason for this is that political and family/social life are inhabited and constructed by active, creative and thinking persons, and it is not at all clear we have any universal causal laws covering their activities" [Kenny and Williams 2001].

'We have paid a big price for the uncritical acceptance of neo-classical theory' (North 1990:).

We learn from the previous sections that the problems of Ethiopian and other poor Sub-Saharan economies seem to emanate from structural such as institutional deficiencies, historical contingencies and political crisis as well as poor governance, low level of public education/awareness or illiteracy, lack of productive educational system, and low-level of physical and technological capital.

And we have seen that since the 1980s and 1990s (in the case of Ethiopia particularly), free market and trade-driven development policies have been envisaged and promoted as a way-out to these economies. It would, however, be worthwhile to ask questions such as how did these policies evolve? Do the policies account for the growth shortfalls of the economies and are they the efficient and sustainable policy scenarios for these "deficient" economies? Looking into the general genesis and procurement of the trade-driven development path policy would provide some indications and understandings to such questions.

To begin with, as in the search for "true" knowledge and "rules" in other sciences, epistemological[20] and ontological[21] universality sureties underpin the search for the causes of economic growth since the beginning of economics, and have subsequently informed prescriptions about how to achieve growth (Kenny and Williams 2001). Various universal growth models have been posited by different economists, some times the succeeding refuting the priori[22]. Recent long-term growth model prescriptions have increasingly moved beyond physical and human capital (Kenny and Williams). The model by Grossman and Helman (1991), which explored the role that trade might play in growth (endogenous technological progress resulting from the profit maximising behaviour of far-sighted entrepreneurs), edified the contemporary "international economic order", *free trade and corporate globalisation* (Kenny and Williams 2001).

[20]"Epistemological universalism involves a commitment to the production of "true" knowledge generated following the "rules" of science, which in turn provides the basis for prediction. This kind of knowledge is universal in the sense of not being a reflection of a particular time or place. As regards the study of economic growth it means a commitment to the idea that all economic processes everywhere are, in principle, knowable. That is, the aim of economics has been to provide theories generated following scientific rules, which explain the largest possible class of phenomena. (Kenny and Williams 2001).

[21]Ontological universalism: epistemological universalism entails a prior commitment which might be termed "ontological universalism". This has two closely related elements: 1) the components of all economies are in some way the same, and hence that economies and economic processes are comparable; and 2) these components of the economies interact with one another in the same kinds of ways, thus producing certain economic "laws" or regularities which operate across all economies regardless of time or space. (Kenny and Williams 2001).

[22] For example, the Harrod-Domar investment-growth rate linear relationship model, human capital is the significant factor determining growth rates worldwide (Lucas, 1988 in Kenny and Williams, 2001), Paul Romer's former model of the argument that output is related to physical capital, labour and knowledge, where the quantity of knowledge was connected with investment rates (Romer 1993 1988 in Kenny and Williams 2001), etc.

Models such as by Grossman and Helpman posited, among others, that 'policies' could have an important impact on growth rates even over the long-term. In tandem with this knowledge, the 'Washington Consensus[23] (WCs)' on development policy, evolved in the 1980s. The WCs policy prescription package was designed comprising, among others, devaluation, reduction of budget deficits and inflation, liberalisation of prices and interest rates, privatisation, reduced controls and the removal of all anti-competitive barriers, which changes the market dynamics itself (Boubakri and Cosset 2002). These policies have been effected in many developing countries including Ethiopia, mainly through what is called Structural Adjustment Programs (SAP)[24]. SAP prescriptions have been "imposed" on poor economies, accompanied by various material incentives and development project programs of World Bank, IMF and other international organisations (example, Fosu 1999; Hoekman and Holmes 1999; Morrissey and Filatotchev 2000). But the natural question is: Has SAP served the poor economies? Is privatisation or free trade-development policy the effective and efficient growth path for the poor societies? Or, is imposing SAP and free trade-driven development path policy on the poor economies like Ethiopia simply wrong? Who bears responsibility if SAP and free trade paradigms have resulted in limited or negative material progress in the hungry nations such as Ethiopia (Perry 2002)? These and similar questions are not easy to answer and even to comment on both for economists and politicians at this time of the century when poor nations are in economic misery and human scars while, on the other hand, the globe is craving and applauding the anti-poor 'free international trade and corporate globalisation'. Nonetheless, we often cannot flee from professional convictions and obligations of conscience. In this regard, one would consolidate several indictments against the economic development policy imposed on poor economies, free trade-driven development path/corporate globalisation. Here below are some theoretical and empirical arguments equivocating this applauded 'the so called high theory policy':

1) *the policy prescription is based on the unreal micro-economics assumptions and epistemological/ontological slips*

The rationality assumption (of economic agents) in the standard neo-classical economics is implicitly a presumption of optimum social capital. 'The neo-classical theory with its assumption that output is at the limits given by the available resources and technology, implicitly assumes optimal governance' (Olson *et al.*, 2000:355). This

[23] WCs was underpinned by two major commitments: 1) the belief that governments had played an overactive role in promoting development, taking on tasks best left to the private sector, and abusing powers best left unused. To this belief, widespread government intervention was not only unnecessary to promote growth, it was recognised as the chief barrier to achieving growth (example Kenny and Williams 2001: Polak 1997; Walde and Wood 1999) and; 2) the belief that all economies are similar and thus will respond in a similar manner to the same policy change. To this belief, individuals respond to incentives and market failure is the result of inappropriate incentives rather than of non-responsiveness (Kreuger 1986 1988 in Kenny and Williams 2001).

[24] And general vision and realization of corporate globalisation, through WTO arrangements, etc.

and rational choice behavioural assumptions are useful for building models of market behaviour in economics. 'Structure of incentives (behavioural factor) given by the institutions[25] and economic policy regimes-thus the governance of a country are important determinates of growth of productivity and economic performance' (Olson *et al.*, 2000:360).

In the neo-classical approach, economic agents are assumed to have perfect information, rational behaviour and the cognitive capacity to process all the information and pursue the economically efficient venture. In other words the actors are presumed to possess cognitive systems that provide true models of the worlds about which they make choices or, at the very least, that the actors receive information that leads to convergence of divergent initial models. *This is patently wrong for most of the interesting problems with which we are concerned*, says North (1990:17). North argues that individuals make choices based on subjectively derived models that diverge among individuals and the information the actors receive is so incomplete that in most cases these divergent subjective models show no tendency to converge. The institutional economist (North) proposes the need to change the micro-economic assumption on individual human behaviour. '*We have paid a big price for the uncritical acceptance of neo-classical theory*' (North 1990:131).

Economics is also blamed for its epistemological and ontological universalism commitments, as mentioned earlier. It is the commitment of producing 'true' economics knowledge following the rules of science (epistemological universalism) and the commitment that components of all economies are the same and interact in the same way in all economies (Ontological universalism) which partly contributed to the rise and promotion of the universal international free market trade policy of our time[26] While, however, no single economic growth knowledge and model would be universal and components of economies and their interactions would vary tremendously, as discussed earlier in this section. It is also good to look into the development of history of developed countries, to see whether specific universal economics knowledge have served nations to grow. This is beyond the scope of this paper, however. It could be crude but no country in history pursued perfect competitive market policy. And it is true that there is no single key to unlock investment and growth in Africa (for example Devarajan *et al.*, 2001).

2) *Effecting privatisation and free market policy will not warrant economic efficiency and growth*

Privatisation refers to the transfer of ownership from the government to the private sector. Privatisation is presumed to render at least two economic elements: a)

[25] '...Institutions are the underlying determinants of the performance (long-run) of economies' (North 1990:107).
[26] 'The world is believed to be capable of realizing the natural way to organize economic activity, markets (Fafchamps 2001).

privatisation may create competitive opportunities; 2) under privatisation, firms are aligned with the incentives of efficiency goals. In public environment, incentives for innovation or efficiency gains are thought to be ill-rewarded (Shirley 2002; Boubaki and Cosset 2002). Shirley documented that privatisation combined with improved competition and incentives result in substantially higher efficiency as well as lower prices. Property right and corporate governance evidences suggest that firms will operate efficiently under private ownership in that private owners (who are the direct beneficiaries of efficient firm operation) have greater incentive to monitor enterprise managers closely (Shirley 2002). However, Shirley herself, presented literature knowledge that private owners, too, will have problems in extracting information and motivating efficiency in firms controlled by managers. Besides, evidence is provided that corporatisation promotes efficiency improvements without ownership change when combined with competition and when governments don't subsidise the state enterprises and when regulation is designed and enforced regardless of ownership (Shirley 2002). With the prevalence of public institutional failures, transforming the public to private monopoly may render society worse. In such cases, the costs will be imposed on society while the benefits are privatised (Lemma 2002). In addition, the existence of market failure, which is the case of the Ethiopian and other SSA economies, is reported to be a void for government allocation of resources though public institutional failures would still lead to sub-optimal public allocations (Ayogu and Fosu 2002). And it is worthwhile to note that change in the ownership mix alone and instituting free market system may not be sufficient to render a firm efficient. Governance and motivation problems can exist in private as well as public corporations (Ayogu and Fosu 2002).

3) *The privatisation in Africa (SAP policy prescriptions, etc.,) is 'an imposition', hence negatively perceived*

Structural adjustment programs (SAPs) consisted of two main components, viz. macro-economic (trade liberalisation and fiscal and monetary disciplines) and institutional reforms (strengthening market and governance), regardless of the aspirations, capacities and ideas of the indigenous scholars and the public. Privatisation in developed countries and the current privatisation surge in poor nations are not comparable. First of all, privatisation in developed nations is not confronted with the problems of underdeveloped capital markets and weak formal institutions (see also argument number 4 below). Secondly, the privatisation in poor countries was prescribed by 'external' bodies. Privatisation in poor nations was employed as a prerequisite for development and SAP loans (including other development and diplomatic commitments with developed nations), from the World Bank, IMF and other international funds. Since the 1980s, privatisation is made an integral part of public policy in poor nations in spite of the prevailing poor economic environments[27] and the otherwise aspirations of the public and the leaders. It is propelled through persuasion/apprehension of political elites[28] and provision of incentives. Otherwise, the poor investment incentive structures and general institutional instability and weakness, the embryonic capital markets, the scarce financial resources, the weak private sector, the acute information asymmetries, the relatively low per capita income and risk aversion, etc., features of the African economies, are serious obstacles to command privatisation (example, Tanyi 1997; Boubakri and Cosset 2002).

Consequently, privatisation and free market policy in Africa present serious socio-political challenges. 'Privatisation is widely perceived, in Africa, as a euphemism for unemployment, reduced government spending on social programs and to the extent that foreign investors participate and make windfall profits, recolonisation' (Tanyi 1997:15). The empirical evidences documented by Boubakri and Cosset (2002) demonstrate *that privatisation in Africa was simply unnecessarily enforced policy experimentation in the midst of the hungry and socio-politically desperate mass*. The researchers reported decrease in output and efficiency (though insignificant) and an insignificant improvement in profitability. Interestingly, Boubaki and Cosset found significant increase in investment. These results would point to diseconomies due to the inappropriate policy. These could be misallocation of the scarce capital of the poor economies, inefficiencies in corporate governance in the private sectors, etc. This outcome in turn results in huge short-term economic and social detriments in the nations (such as the frequent hunger and rural social unrest and scars in Ethiopia during the last decade and at present). Besides, the nations' loss in the long-run perspective may be immeasurable as growth policies should be formulated in a long-term perspective (example, Mundlak 2000).

The success of privatisation and the bestowal of free trade in poor countries should not be measured with the tally of privatised firms and embarkation of all SAP components as per the standard of the promoters' yardsticks, but, as Lemma (2002) correctly put it, the central issue should be whether the programmes have produced gains for society. The question is 'who bears the responsibility for the economic losses, the lost development opportunities and the human scars due to pursuing such wrong policies as Perry (2002) put it?' Some contributors claim that privatisation has the advantage of fostering competition and incentives in Africa where institutions are weak if it is done "correctly". We should, however, ask ourselves these questions: How is it (the privatisation) done in Ethiopia and in other poor SSA nations? How would the free market and privatisation be correctly effected in traditional economies such as the Ethiopian? And how would it improve efficiency and economic incentives given missing public sector institutions and the cultural values which are mostly

[27] Privatisation must take account of both the relevant market structures and the competition and regulatory policies (Yarrow 1986 and Vickers and Yarrow 1991 in Boukari and Cosset 2002).

[28] *Most governments in Africa see privatisation as an opportunity for spinning off loss-making enterprises and generating revenue in the short-term* (Boubaki and Cosset 2002:115).

hostile to growth and technology generation, the public illiteracy and limited awareness of possible economic opportunities? It is, nonetheless, unlikely that privatisation by itself can sufficiently strengthen the institutions required for nurturing its potential benefits. It should be accompanied by efforts such as institution building, including stronger legal and regulatory structures, and capacity building (such as capital markets, infrastructures, etc.) and basic education (Ayogu and Fosu 2002).

4) Poor nations like Ethiopia simply don't bear the prerequisites[29] *for mass privatisation and embarking on free market system*

At least three economic environments, viz. governance, market structures and government regulation and incentive systems, should be made right in order to expect the desired outcomes of privatisation, such as efficiency, profitability, productivity/output, and capital expenditures (Lemma 2002). Lemma argues that the pitfalls of SAP/privatisation schemes under ill-functioning markets, weak governance and weak regulatory schemes are multitude: a) under failed governance, the interests of private managers are divorced from shareholder interests analogous to the divorce of public enterprises managers' interests from public interests; b) under weak governance privatised firms have the incentive to over-indulge in exotic investments, engage in undue asset size expansion or empire building, over-invest relative to socially optimal outcomes; c) under uncompetitive market structure, privatisation merely transfers public monopoly to private monopoly and under inefficient regulatory structures, the consequences of private monopoly is adverse: benefits are privatised while imposing the costs on society (John *et al.* in Lemma 2002), etc. Shirley (2002), too, pointed out an important concern that in the presence of weak institutions, privatisation will lock countries into bad outcomes. To Shirley, private operates may lock the government into higher prices which would discriminate the poor. The poor may be worse off in the long run according to this argument.

Prevailing institutional frameworks should matter in the choice between privatisation/free market policy and corporatisation (for instance Mundlak 2000; Ayogu and Fosu 2002). Developing countries lack the political, bureaucratic, legal and sector institutions[30] i.e. economic environments that foster efficiency in the economy (both, private and public), Shirley (2002). Shirley (1999) provides empirical evidences that countries with strong institutions (laws, norms and organisations) privatise and corporatise[31] well, whereas privatisation devoid of discipline in the private system is indicted to be inefficient and counterproductive (Lemma 2002).

[29] Technological change and institutional change are the basic keys to societal and economic evolution and both exhibit the characteristics of path dependence (North 1990:103).

[30] That is laws, norms and organizations that protect property rights, provide citizens with a voice in how they are governed, resolve disputes between government and private sector efficiently and fairly, promote efficiency and bureaucracy, etc. (Shirley 2002).

[31] Reform under public ownership (Shirley 1999).

As indicated in Section 3.1, institutional economics ideologies and economic growth theories don't encourage mass privatisation and free trade-driven development policy for traditional and 'deficient' economies such as the Ethiopian (example Oskam *et al.*, 2002). Ideas and ideologies shape the subjective mental constructs that individuals use to interpret the world around them and make choices; they are crucial in growth and are not easy to get them right or get changed in short time periods (North 1990:111). Institutions are the set of constraints on behaviour in the form of rules and regulations as well as moral, ethical and behavioural norms, which are embedded in human minds and behaviour (North 1984 in Shirley 2002). These are not easy to get changed.

Ownership rights are enforceable through a functioning legal system and that constitutional constraints or social norms will prevent most arbitrary, dictatorial or corrupt acts that rob owners' rights. Getting these rights and investing in education would be the priority for Ethiopia and poor SSA nations. There was no accessible official/documented information on how the privatisation and free market policy were effected in Ethiopia. But, it would be wise to ask and research on questions such as: how are the privatised enterprises in Ethiopia such as the various firms of Sheik M. Hussein Al-Amoudi functioning? How about the privatised public enterprises-was that mere transfer of public property to private ownership or was there societal economic efficiency gain?

5) *The SAP privatisation method may exacerbate socio-economic and ethnic inequalities*

A number of governments have excluded or favoured certain ethnic groups from participating in privatisation (Doubaki and Cosset 2002). This worsens socio-economic inequality in poor nations (such as Ethiopia) and exacerbates the patronage, largely based on ethnicity (Dinavo 1995), ultimately resulting in socio-political unrest and economic degeneration.

5. THE AMBITION WITH THE FREE TRADE POLICY PRESCRIPTION TO POOR NATIONS

> *'Developed country trade officials believe that anti-competitive practices in other countries impede their ability to sell goods and services in foreign markets'* [Hoekman and Holmes 1999:875].
>
> *Nonetheless, the possibility of an intensification of competition between nation states and blocs (such as East and West) cannot be ruled out, something which could take the form of elimination contests involving trade wars and various forms of warfare* (Featherstone 1993:184).

> *The process of global culture formation is mere myth. Global culture formation would be much easier in the face of some external threat: one would have to convince the globe as subjected to some extraterrestrial or intergalactic threat. A further possibility would be the response to a perceived threat to the continued viability of life on the planet through some ecological disaster* (Featherstone 1993:173).

'The West understands itself as the guardian of universal values on behalf of a world formed in its own self-image' (Featherstone 1993:172). Also, implicitly, people and governments of poor Eastern countries such as Ethiopia and other SSA seem granting the West the moral right and duty to guide, educate and develop them. And the West pretends pursuing the responsibility because of the necessity to civilise the totality. Western governments express such oaths often in conscientious oral myths, such as '*our dream: a world without poverty*' slogan of the World Bank.[32] As described in the earlier sections, the promotion and institution of trade-driven development policy path to poor nations through various programs of the World Bank, IMF and other international Western initiatives are articulated to help poor nations break the underdevelopment and poverty circle they are immersed in. The behind the veil enthusiasm is rather to realise world capitalism through economic and political domination (Featherstone 1993), globalisation. It would have been sacred and good for economic life of the hungry if globalisation would help poor nations to develop through modernisation and duplicating that of the Western 'good'. This is neither the intention nor likely for poor nations like Ethiopia. Nonetheless, globalisation would serve poor societies if it were accompanied by ideologies such as communistic *modus operandi* (based on fairness, justice and truth) or if it were governed 'by the Heavenly.'

Whereas, mere dismantling the economic role of poor governments, leaving their economies to be manipulated by market forces is simply rich nations' wisdom for market and cheap raw materials.[33] Wherein the prices of developing countries' commodities are lowered while the prices of developed countries' products are retained, and ever more wealth is siphoned to emerging corporate mercantilists. *Competition law (free international trade) and the myth of global efficiency increasingly attracts the attention of trade policy officials in OECD countries, driven by domestic export interests. Developed countries' trade officials believe that anti-competitive practices impede their ability to sell goods and services in foreign markets* (Hoekman and Holmes 1999:875).

To become prosperous or maintain prosperity, the developed countries know that they must educate their citizens; they must provide them with health care; they must

[32]Joseph E. Stiglitz at www.waltainfo.com/protile/infoarticles/2002/April/Article3.htm

[33]Whereas, some empirical researchers even highly appreciated contribution of, hitherto, public investment role of government to growth in poor nations. An increase in central government saving by one percentage point is estimated to be associated with a rise in the growth rate of 0.12 percentage points, on average (Sachs and Warner 1995b).

build transportation systems so that people and goods can be moved; they must support the building of efficient industries to process their natural resources; they must pay their employees well to produce consumer buying power; they must maintain a healthy economic multiplier through a proper balance between manufacturing their own consumer products and their imports and exports; and they must trade equally with the rest of the world. Yet they insist that other governments (such as that of poor Ethiopia) reduce their education; reduce their health care; eliminate supports for industry; reduce the wages of an already impoverished labour force; and enforce their monopoly on industrial technology. They impose unequal trade upon the poor nations-and say to them 'see you in the market'.[34]

When the universal result of mass privatisation, liberalisation and free market policy in poor nations is increased poverty and low resource export prices, the IMF, World Bank, other international organisations and Western governments can hardly claim their intent was to develop those poor countries. SAP and free market policy imposition on poor countries like Ethiopia enabled rich nations and Western corporations procure cheap raw materials and primary products at low cost. Extension of the free market policy was accompanied with loan incentives as disclosed in other sections. This, in turn, increased the aid burden of the poor nations. The debtor nations (poor nations) are provoked and attempt to earn more by exporting whatever they have at hand, particularly natural resources under the SAP and the disordered 'so called market-lead' economy. Poor nations like Ethiopia are implicitly expected to lower their living standards and export primary resources all to pay debts that did little/obliterated their socio-economic realties.

The experience of Ethiopia is a typical result of the imposition of free market policy prescription. Prime Minister Meles Zenawi told a press conference on 23 September 2002 that the nation has been facing socio-economic crisis following the deep collapse in coffee price because of the unfair global trading. PM Melese Zenawi rightly put it when he said '*there cannot be a more damning incident of the global trading environment than when only less than one per cent of the price the final coffee consumer (in the West) pays goes to coffee growers here in Ethiopia*[35].' A recent country level case study on Kenya also showed that the market liberalisation has impeded growth in the nation (Karanja 2002). It constrained growth of small farmer productivity (through decreasing public agricultural expenditure); it contracted credit and rural financial institutions for the farmers; it aggravated farmers' information asymmetry problem whereby resulting in resource misallocation; and it enhanced marketing and production risks to small farmers (Karanja 2002:161-162). That would be an achievement with regard to the real ambition of instituting the free market prescription (such as the SAP) in poor nations.

[34]Here lies the Cold War!

[35]http://www.waltainfo.com/EnNews/2002/Sep/23Sep02/Sep23e6.htm

Free global trading, globalisation, is a neo-colonial wisdom. Developed countries claim to be financing the developing countries, but actually the poor countries are financing the rich through cheap raw materials supply (example coffee, hides and skins, spice crops, etc.), low pay for equally productive developing countries' labour, investing largely in commodity production for the wealthy world (through FDI, for instance), and the many methods of inequality of trades. The discrepancy in relative values between manufactured and primary commodities highlights the reality that Adam Smith's free trade, as interpreted and designed by neo-mercantilists, is even more effective than colonialism in appropriating the natural wealth and labours of the Undeveloped countries.[36]

The further move towards the realization of globalisation through WTO, transnational companies/FDI, etc. will exacerbate exploitation and destitution of the poor in countries like Ethiopia. WTO standards which do not reflect the advantages and interests of poor nations, due to both exclusion and negotiation incompetence (example, Stiglitz 2000), will discriminate poor nations. WTO would specify a set of minimum international environmental standards and labour standards, and permits restrictions will be placed against imports from countries not complying with these minimum standards (Bagwell and Staiger 2001). These will work in one or the other against the value of poor nations' exports and market access. On the other hand, such settings will compromise the labour and environmental standards of the industrial world giving them extra competitive power against the poor nations (ibid.).

Theoretically, as indicated particularly in Sections 2.2 and 2.4, trade/openness may help but free trade without the development of the manufacturing sector and diversification of the export bases of poor nations would rather turn against their economic advantages, damage the growth possibilities and long-term development opportunities of the poor nations, as argued by many contributors. *For resource poor countries, trade liberalization would be an erroneous policy, as it would lead to greater specialization in traditional exports, leading eventually to a "staple trap" that is reliance on a few low quality goods in GDP and exports* (Chui *et al.*, 2002:158, con). From their trade model with endogenous growth framework Chui *et al.* described that "each bloc (South and North) exports the good making relatively intensive use of its relatively abundant factor: for low knowledge diffusion from the North (Westerns), the South (East) specialises in the traditional competitive good, the Westerns produce more of the high-tech manufactured monopolistic good (p. 154). In such case East will suffer from declining terms of trade and will be repatriating profit back to the technology and investment good owners, the Westerns. A rise in the capital stock owned by either region (West or East) will cause the equilibrium terms of trade of the East to Appendix 2the full employment in the West, the exogenously given wage in the East and the capital mobility will result in relocation of production in the East in that profit rates are equal (Burgstaller and Saavedra-Rivano 1984 in Chui *et al.*,

36 http://www.slonet.org/~ied/frthoz.html

2002:131). Thus, the West will reap the high profit rate in the East And so, the West's per capita income will widen, because East's domestic product has to be devoted towards profit repatriation or debt servicing. Hence West-East per-capita differentials will rather be widened (Chui *et al.*, 2002:131).

The issue is: West and East are highly asymmetric with respect to the trade warfare. The chronic poor economic environment suffering East (see particularly sections 2.1 and 3) may not be expected to benefit from the egoistic free trade regime and globalisation. International trade would be fair to all economies if, at least, each and every economy evolves sound economic environment, productive and progressive human capital, and diversified export base (with some quotient of industrial products), etc. Under such setting, the poor nations would be in a position of copying from advanced nations, in a position of resisting Western's market and political power, etc., and convergence would be expected. And as discussed in Section 6 of this paper (see also Oskam *et al.*, 2002), addressing the prevailing economic environment problems such as bad governance and whereby providing incentive for the development of productive human capital and evolvement of indigenous manufacturing sectors (which make use of its surplus labour) would have been the primary moves of poorer nations. Some researchers pointed out analogous policy implications in this conjunction. Chui *et al.*, 2001b (in Chui *et al.*, 2002), for instance, pinpointed *that more limited trade under a tariff equilibrium may benefit the East*[37] (Chui, Levine and Pearlman 2001b, in Chui *et al.*, 2002). Chui *et al.* (2002) described that tariffs increase the proportion of the world's high-tech manufactures that are produced in the East and because this sector earns monopoly profits the effect is then to reduce the transfer of such profits from East to West. *The South then benefits because it is less exploited in the Leninist sense; but the down side is that the transfer of manufacturing from the innovative efficient West to a less efficient South that also engages in copying reduces the incentive for the West to invest in R&D* (ibid. p. 159).[38]

And global economy may grow under the current international trade regime, where the South specialises in traditional goods and the North specialises in innovation. But under the egoistic regime the welfare and profit will go to the skill, technology and capital-rich nations, thus further deluding the poor'. A sincere desire for global economic efficiency should be accompanied by a socialist ideology, as indicated earlier. 'Free trade is Pareto-efficient for North and South if (and possibly only if) it is linked with free sincere aid/assistance to the South' (Chui *et al.*, 2002:159).

[37]When trade encourages development of non-agricultural productive sectors in the case when there is growth divergence between West and East, a temporary tax on the traditional good may be able the East to increase its share of the high-tech good and convergence will follow (Chui *et al.*, 2002:158).

[38]Under the current trade, the East specialises in the production of a good produced under competitive conditions whereas the West produces more of the monopolistic good, in the national absence of growth the East would be "exploited" and lose out under trade, where as, under autarky the East would produce some high-tech manufactures and be able to benefit from (Chui *et al.*, 2002:153-154).

Otherwise, the current free trade-based economic policy for poor nations such as Ethiopia requires rethinking. Above all, emphasis on policy factors (such as trade) will undermine, as is the case, looking into the economic environment, relative contributions of growth in inputs (factor accumulation) and growth in efficiency or total factor productivity in poor Ethiopia. The poor nations are ordained to frame a free market driven growth path under the prevalence of poor economic environments and assuming foreign technology while it isn't even available (through patent right and/or secrecy problems, see for instance Temple 1999:134) may bring them to no where if not deleterious. Why should poor nations experiment on policy prescriptions while 'humanity' is anguishing? Why are the interests, will, and needs of the people subdued? Who should plan for them? Why are poor souls of the globe deprived of their right of guiding their own destiny? Why should policy prescriptions be imposed upon them? Why do Westerners say we know what is fit for you while they may not know anything at all. Mazzucato and Niemeijer (2000) provided intuitive implications from their in-depth case study on a cultural economy, alike the Ethiopian, with regard to local economic principles and the policy of market economy: ...*'These findings highlight the need for theories that allow different paths of institutional development rather than assume institutions to develop according to a predetermined path towards a market economy*' (p. 264). Indeed, different theoretical perspectives and policy approaches are presumable, in addressing the growth shortfalls of poorer nations, such as Ethiopia. Otherwise, the current consensual and erroneous impositions and acts which are rather naughty to the 'needy' may be even hostile to the economics and peace of the globe and people of the planet earth in the long run.

In sum, the underdevelopment or economic degeneration of Sub-Saharan Africa (SSA) is tragic, particularly in contrast with the parallel extraordinary economic growth experience of Western nations and, more recently, several nations in Asia. This tragic fact signifies an even greater and progressively growing disparity in wealth and income between Africa and much of the remaining world. 'It is also tragic because the great disparities in skills which underlie the economic statistics reduce the opportunities for gains from trade, thus reducing future growth for all' (Tanyi 1997). And globalisation will simply pass by/ravage these economies such as the Ethiopian's. Ethiopia and other marginalised SSA economies are not sharing the benefits of global efficiency (Morrissey and Filatotchev 2000) and will rather be exploited (particularly with the prevalence of the rich nations' egotism). This is simply because: 1) SSA countries have underdeveloped institutional structures that constrain their ability to become integrated in global markets (see particularly Sections 2.1 and 3); 2) liberalization exposes domestic firms to competition from imports before they are able to increase efficiency and competitiveness. Domestic firms (which have been functioning under protection and inefficiency) may not survive when exposed to competition. Import volumes increased more than export volumes. For these southern producers are commended to have Northern partners to facilitate access to developed country markets (Morrissey and Filatotchev 2000:3), which rather will exacerbate the exploitation and realize the neo-colonialism.

6. SUMMARY AND DISCUSSIONS

'Deployment of any 'so called good' developmental effort and policies, such as the free-trade, to Ethiopia and other SSA nations, under pseudo political, economic and social liberty/sovereignty and other poor economic environments, is analogous to providing fertiliser and other growth inputs to 'a plant neighboured to *Striga*.' [the author].

'...*There cannot be a more damning incident of the global trading environment than when only less than one per cent of the price the final coffee consumer (in the West) pays goes to coffee growers here in Ethiopia.* [PM Melese Zenawi, 23 Sep. 2002, Conference Address, Addis Abeba].

In the previous sections, attempt has been made to subsume/examine the growth shortfalls of SSA and the genesis/ambitions to realise free international trade/globalisation. It may, however, be worthwhile particularly to try to further scrutinise the elicited growth problems in the perspective of mapping development policy directions. In this respect, it would be helpful to set forth the perceptions and sources of economic growth and development. In general, growth is understood to occur when the economy's ability to produce goods and services expands. Srinivasan (1999) reflects that 'the sources of economic development are essentially three: the growth in inputs of production, improvements in the efficiency of allocation of inputs across economic activities, and innovation (which creates new products, new uses of existing products, and brings about in the efficiency of use of inputs)'. He argues that 'being open to trade and investment contributes to each of the sources of growth' (p. 1047). Contemporary economics (particularly the school of new institutional economics) and development history, nonetheless, don't limit the perception of growth to such simplistic conceptions. Growth is described to be a complex phenomenon. Economists increasingly discover more and more explanatory factors which have to be drawn upon in order to come to grips with this complex phenomenon. Besides, epistemological universalism (the commitment to produce 'true' universal knowledge following the rules of science) in economics can't be taken for granted (Kenny and Williams 2001). Because the components of economies and interactions are unlikely to be the same across countries, it is difficult to assume that a single universal economics knowledge (such as free trade) will serve all economies. I would like to bring here again Kenny and Williams's crucial argument in this regard: '*there is a crucial and important mismatch between the actual economic world and the model of the economic world which underpins the current search for casually significant variables. ...We are fairly sure there are some universal casual mechanisms in nature (gravity for example) but it is not at all clear that we have any universal casual laws covering social family and political groups'. This is because, above all, social groups (such as family, political, economic) are inhabited and constructed by active, creative and thinking persons'* (p. 2).

Consequently, the complexity of growth and heterogeneity of the components-interactions and the respective growth economics of different economies need to be recognised in scrutinising the growth shortfalls and development policies for the economies of Ethiopia and other SSA countries. The issue is to look into/find out the real causes, rather than looking at everything as J. W. Smith (1989) firmly forwarded. Which are the real causes of the growth tragedy of Ethiopia and other poor SSA nations? The core factors for the growth dereliction in the economies of SSA seem to be poor policies, bad governance and weak institutions, which are echoed using many empirical contributions (example, Collier and Gunning 1999a; Englebert 2000; Oslon *et al.,* 2000) and theoretical perspectives (such as North 1990: Kasper and Streit 1998; Mundlack 2000), see Sections 2 and 3 also. The formation and nature of the governments together with the flawed external interventions and vested interests of the rich nations in the region and the global economic order seem to be the causes for poor policies and bad governance in these poor nations. Colonial/historical contingencies[39], poor initial capital and generally low managerial and political and ideological capacity, and non-commercial and anti-innovation cultural transfers would also be partly responsible for the precedence of bad governance and poor institutions in Ethiopia and other SSA. Bad policies, bad governance and other institutions affect motivation and decision behaviour of entrepreneurs-households and scholars/scientific endeavour-learning, whereby wrong/inefficient economic ventures will be pursued and development of new ideas/technologies will be crippled. The incentive to care for natural resources and the future (such as saving and investment) will also be deluded.

High debt burden, poor health and other demographic features and unproductive education also affect the long-run perspective (development) of the economy of Ethiopia and other poor SSA. Debt burden forces the nations to pursue short-term inefficient policies and economies and the political choices of the nation, creditors would exercise their repayment rights in one or the other way. Poor population health (particularly holocausts of AIDS like and that of other similar 'procreation') wanes people's hope whereby their incentives and other economic behaviours are wallowed. Wrong educational focus (implicitly Western 'policed'), wrong learning motivations, poor innovative incentives and poor skilled labour management would affect not only generation of new ideas and technologies but also would encourage reluctance to contribute in the national economy/socio-politics and foster brain drain. Other growth shortfalls such as poor infrastructure and landlockedness would simply increase costs through affecting inter- and intra- communications.

Attempt has been made to sketch the interaction and cross-causality of the aforementioned growth shortfalls of the economy of Ethiopia and other SSA, Figure

[39] History matters in the study of change. The path taken in the past can eliminate options, because of inherited structures, institutions, ideologies, attitudes and values (including apartheid, colonialism and nationalism), Jenkins (1997).

6.1. The interaction and recurrence of all the problems, combined with the ever poorer economic performance, will result in a further exacerbated vicious circle/socio-politico-economics stance. The possible mode of interaction of the economic factors mentioned in Figure 6.1 are needless to enumerate. It should, however, be noted that a specific factor would interact with more factors than the links shown in figure 6.1. For instance, civil war, ethnic contest and social unrest, and historical odds and cultural transfers would contribute to 'new' government formation. These and other possible conceptualisations are left open for the reader.

It is apparent that the follow up to problem analyses should be talking about development way outs and policies for the poor nations like Ethiopia. How can Ethiopia deal with its development problems? What development policy paths would be feasible and efficient to its economies and societies? Are the prevailing policy prescriptions efficient and feasible from the perspective of the population of Ethiopia? If not, who bears responsibility for this? This paper is not gearing to provide more comments on the last two questions, to the provisions in Section 5. Nonetheless, attempt is made to provide general perspectives on the former queries.

Generally, governments of poor nations, the public and the scientific community should realise that local frictions should be curbed and local and regional solidarity should be promoted. The governments of Ethiopia and other poor SSA countries better look into the governance-public reconciliation, trust creation, securing general law and the judiciary, capacity building (public education, provision of quality education, infrastructures, etc.), rather than isolating themselves from the public and linking to the 'powers'. Policy prescriptions (based on neo-classical economics) can give lessons (on paper) on how the nations could realise economic growth. But the governments should always realise that there are serious issues which the 'blackboard' economics has concealed through the provision of stringent assumptions. In the neo-classical economics, behavioural factors, economic environments and everything else (including external politics), etc., are assumed 'optimum' at any point in time, while they are critically absent in the poor nations perspective in particular. Good economic environment is essential for the proper and effective algorithm of the factors[40] which involve/contribute to growth. In other words, there should be appropriate rules of the game governing human interaction/behaviour for economic efficiency and growth to be realised. Early philosophers (Hume and Smith) too indicated that at least three institutions are fundamental to human progress and civilised society: the guarantee of property rights, the free transfer of property by voluntary contractual agreement and the keeping of promises made (Kasper and Streit 1998). Such tasks are, generally, understood to be of the government's, in societies such as the Ethiopians. Even in an economy where the

[40] Given the natural and socio-economic environments, five major sources of economic growth could be elicited: 1) increase in the accumulation of capital goods (investment); 2) increase in productive labour force; 3) reallocation of resources from low-to-high productive sectors; 4) technological change and 5) accumulation of knowledge and skills (embedded in human capital).

basic form of economic organisation is the market system, the government is seen as having four functions, Common (1995): *1) to create and maintain the infrastructure required to support a market system, principally in the form of legal system; 2) to correct market failure; 3) to stabilise the economy and encourage economic growth; 4) and to redistribute income and wealth so as to alleviate poverty and achieve the equity target that is determined by the political process.*

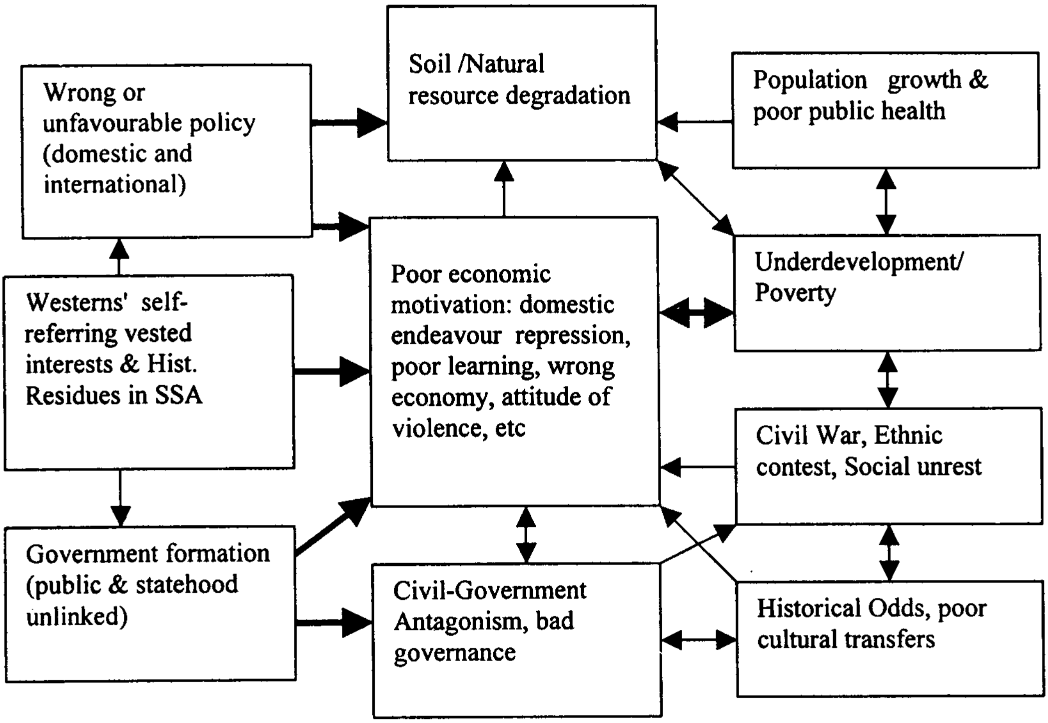


Figure 6.1: Sketching the Interaction of the Main Factors Involving in the Impoverishment Iniquitous of Ethiopia and Other Poor SSA Countries

Well, pooh-poohing state active economic role and provision of the free-trade like impractical policy prescriptions to poor governments of Ethiopia and other poor SSA, rather the enthusiasm to realise global capitalism, would simply disrupt the economies and the population, which will result in serious human scars and huge socio-economic inefficiency. Here below, I provide some issues which would help to provoke one's thought and consciousness, with regard to policy making and provision in poor SSA nations such as Ethiopia:

a) First of all, one need to recognise that effective and efficient economic development policy technologies could be provided to lift SSA from its poverty and underdevelopment dilemma/growth tragedy if both national leaders and Western governments and other international interested bodies were sincerely concerned and economics and other expertise were interpreted according to the socio-economics, physical, institutional, etc. stances of the respective economies. As pointed out earlier, we need to recognise that some of the theoretical bases of economics such as the implicit assumption that components of economies (and their interactions) are fundamentally alike across economies (ontological universalism) and the attempt to generate universal economics policy knowledge (epistemological universalism), the stringent behavioural and other implicit unrealistic assumptions of the standard economics, are simply unrealistic. Hence, national policy makers and governments should not be overwhelmed by the 'hypothetical' neo-classical economics based policy prescriptions (such as the economics of free trade) and learning.

b) The Ethiopian and other poor SSA governments should focus their attention on the development history of other nations rather than on the policy prescriptions handed to them. No country has applied for and/or developed through the principles of pure trade economics. The development history of rich nations is a history of regulated market, protection and subsidy. Many countries in Europe are still highly subsidising their agricultural sector and pursuing a highly regulated market economy. People in developed nations have the right to live, and plan for themselves, etc. How could the regulated market governments prescribe and impose otherwise development and social policies on poor societies? Policies of independent self-consciousness, self-reliance, economic security, living and indigenous economics and ownership should never be violated when it is for poor nations such as Ethiopia.

c) Ethiopia and other poor SSA nations should not be denied the right to pursue their efficient socio-economic policies and economic path alternatives. The egoism of the affluent, aid-burdens and other political commitments and the myth of international efficiency should not dictate the development choices of poor nations and societies. The ex-colonisers and aggressors should rather apologise and pay compensation for the historical holocausts and deferred development opportunities of SSA. Intimidating and churning (through various forms of cold warfare) the 21st poor for its hunger and backwardness, and ghettoising it to bear the responsibility will neither cover nor postpone the historical atrocities and contemporary socio-economic anti-poor cold war transgressions.

d) The government and the general public in Ethiopia and other SSA nations should put an end to internal differences and build national and regional solidarity and opt for total internalisation of policy making and ownership (resource, power, etc) and protecting the lives and interests of the vulnerable mass of the nations.

Governments of poor nations should not leave/hand over the poor and vulnerable to the greedy international free market. They should rather protect the masses and promote indigenous ownership and cultivate competitive citizens, like the states of the West Asian Tigers. Elbadawi and Sambanis provided similar concluding remarks: 'Africa should undertake strategic actions to level the playing field for the emergence of an indigenous entrepreneurial class and economic diversification. ...An expanded private sector base dominated by the indigenous population would provide the political cover for meaningful privatisation in SSA, which has so far eluded most African reformers' (Elbadawi and Sambanis 2000:244). The powerful should not subdue the powerless. The economic and technological advancement of the rich Western nations should not by itself be a growth shortfall for the 21st century poor sovereignties in SSA.

In sum, the poor SSA nations and societies are not competitive in the free trade race as we learn from the lessons of SAP and predictions of many scholars (see particularly Sections 4 and 5). The free trade-driven development path will simply pass over/discriminate against the economically, politically and technologically unfit, such as the hungry and 'illiterate' Ethiopian masses. At this moment the Ethiopian population (particularly the rural and urban poor) is left vulnerable and unprotected. The free competition or globalisation will simply ruin particularly the rural poor unless the population and the national government, together, come up with a united response. This generation should either revert from corporate globalisation to fairness-justice or the globalisation race will end up in violence.

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