GLOBALIZATTION AND ETHIOPIAN ECONOMIC DEVELOPMENT

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1. INTRODUCTION

Since the early 1980s, economic relations among nations have undergone a revolutionary transformation from one that was international to global. The difference between these two sets of arrangements among the nations of the world is profound not only because it reconfigures the global map and seeks to undo what the treaty of Westphalia did 350 years ago, but also transcends the nation state to have significant impact on the life of the individual. If the treaty of Westphalia (1648) created the nation state, first among the European countries and later in the rest of the world, globalization seeks to destroy borders between nations and create a global village.

To appreciate the significance of globalization, it may help to reflect on the nature of economic relations prior to its advent. Up to the 1980s, nations existed as an independent entity with their own economic and social objectives as well as modalities to realize them. The relationship between countries was therefore a relationship between independent entities or inter-nations.

In the realm of economics, the national interests of nations were objectified as the attainment of high rates of economic growth and employment, stable prices, equitable income distribution, balanced regional development, and sustainable balance of payments among others. As we would have occasion to see in more detail later in the paper, globalization tends to erase these national interests supplanting them with global interests.

A second important difference between the pre and post globalization was the nature of the relationship that existed among countries. In the pre-globalization period it was the philosophy of interdependence that defined and governed the relationship between countries. The idea was that, although each nation state was free to behave in a way that maximized its own national interest, a blind and unmitigated pursuit of own interest could have proven destructive if it was not tempered in ways that ensured the distribution of the benefits that such a relationship makes possible among the nations of the world.

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Under globalization, the notion of interdependence is replaced by one of competition among as well as within nations and the game changes from one that is of positive sum ie. where every country wins, to zero-sum i.e. where some win and others loose. This competition based-on winners take all arrangement, leads to an inequitable distribution of the benefits and advantages that accrue from their international relations. There is no gainsaying in denying that the weak and the poor are foreordained to lose in a game that pits the strong against the weak and the poor against the reach on equal terms.

It is this evolving competitive global environment and the probable fate of developing countries that worries and should worry researchers and policy makers and has motivated this paper. The issue to be explored is whether a country like Ethiopia could globalize and survive? If not what options are available to it.

The paper first maps out the globalization terrain to understand what it is (section II), the logic, justification and implications (section III) and revert to the issue of what globalization means to and its most likely impact on Ethiopia (section IV) and suggest an approach (section V). Section VI would conclude the paper.

2. GLOBALIZATION AND THE GLOBAL ECONOMY

Despite the fact that the whole world is talking about globalization and of being globalized, the term suffers from lack of conceptual clarity as well as generating debate on what impact it is likely to have on the global economy in general and those of the developing countries in particular. As Bhalla (1997) aptly points out, " globalization means different things to different people".

Conceptually the use of the term has spawned meanings that are more in tune with the interest and inclination of the user. To the economist globalization is an advance to a fully integrated world market where goods, services, capital and technology move from one economic space, whether between or within nations purely on the basis of price and the rate of return (profit) differentials and nothing else. For this purpose, governments are required to eliminate all impediments that constrain the smooth flows of goods, services and factors of production across political borders.

To the political scientist globalization implies the end of the nation state. Accordingly, there would cease to exist sovereign nations with distinct borders, and a system of government and governmental powers with parochial national interests. To the extent they survive, their main function and responsibility would be to safeguard and make their constituencies safe for private capital. Their mandate would be limited to that of putting in place and maintain rule of law, protect and enforce property rights, and otherwise provide efficient and quality governance that are consistent with the demands of the global rather than the narrow national interests.

To the sociologist, it means the end of the diverse social values and organizations that derive from the cultural and traditional basis of the people living in the different nation states. In other words, globalization is a drive to eliminate the multifarious and multinational cultural diversity and replace it with a single global value and a homogeneous culture and social organization.

Combining these and other strands of thought, Falk (1997) describes globalization as a situation where "the state is no longer in control of its policy process. Territorial sovereignty is diminished on a spectrum of issues in such a serious manner as to subvert the capacity of states to control and protect the internal life of society". In a broader context (Ohame 1990, 1995), the term has been stretched to refer to a world of a politically, economically and culturally homogeneous entity.

The decline and eventual demise of the state sources from the fact that (Julius 1997) "globalization is driven by private and not public actors; that is by firms and not the government" and where (Falk 1997) these "non-state actors hold an increasing proportion of power and influence in the shaping of world order". In short, important decisions affecting the welfare of the people are left to and made by domestic and international business concerns rather than governments and the market is accorded the power not only of distributing goods and allocating resources but sorting out social and political problems of society. Whether there is to be investment in a country and if so how much and in what activities and for what purpose is the decision of the market and not that of governments.

There follows a question of what drives the market and what those private interests that supplant national government are. Conventional theorizing may lead one to argue that resource flows among nations and their allocation in different activities are managed by an invisible hand which is beyond the manipulations of individual interests. While this proposition may correctly reflect the perfectly competitive world, such an argument loses luster in a world that is growing further away from the ideal competitive environment and is dominated by oligopolistic multinational corporations that are larger and more powerful than national governments. These represent the forces behind globalization and are in effect the market. In other words, when one refers to the global market, he/she is in effect talking about the actions and behaviors of multinationals that control trade in goods and services; make decisions on where these goods and services are to be produced; where they are to be sold; what technology they are to use; where and under what conditions they are to be obtained; how investment is to be financed and all that.

Note that by conferring these powers on multinationals, globalization in effect transfers the authority and mandate of governments to these entities. Once multinationals take over, governments exist to serve their interests and not of the people over whom they govern.

3. THE LOGIC AND JUSTIFICATION FOR GLOBALIZATION

Two points that need to be underlined are that first multinational corporations are not an invention of globalization. On the contrary, globalization is the creation of multinationals. Secondly, there has never been congruence of interest between national governments and multinationals. While national governments target and seek to improve the standard of living of their people, multinationals are interested in the maximization of their profit.

During the pre-globalization era the balance of power tilted in favor of governments who, if the interest of the nation so required, took measures that were contrary to the interests of multinationals. For example, a country that has a balance of payments problem or one that would want to develop its own domestic industry would restrict the nature and quantity of goods and services it imports by using the various means and instruments under its control, including exchange control, imposition of tariff, quota and other non-tariff barriers. Such measures are anathema to multinationals, who would want to reduce if not totally eliminate such constraints on their operations. This in effect was the constraints that the international relations that preceded globalization posed to multinationals. And if multinationals are to have their way, they have to reduce the power of governments and if possible make them subservient to their own interest. In other words if nation states are becoming impediments to the growing activities of multinationals, globalization was the means to find ways of reducing their power or better still eliminate these nuisances.

Recall that prior to the advent of globalization, the economic relations between countries were international. In other words it was between nations. This implies that nations existed independently of the relationship they had with other countries and retained the right to, and did, frame their own economic and social agenda and formulated modalities of how to achieve them.

First and foremost, nation states had the power, (although this may have not been effectively exploited) to define their own economic objectives and draw up the strategy and modalities to realize them. Secondly, they had instrument such as monetary, fiscal, trade, balance of payments policies, for example, which are available to manage the economy. With flexible exchange rate regime and the shift from direct to indirect control, monetary policy is reduced to maintaining the exchange rate at the unknown and unknowable "equilibrium rate". Fiscal policy had lost its stabilizing and distributional role to the market. Resort to directly managing the balance of payments through trade policy such as the imposition of high tariffs and administrative control are now taken over by the market. The use of scarce foreign exchange as well as domestic credit to finance activities that are considered priorities are no longer available to the government.

Neoclassical economics has stretched itself to explain and suggest answers to a variety of social issues including marriage, the number of children, crime in terms of maximization of utility.

What are the consequences of globalization that are based on such extensive power of the market? The answer to this very crucial question varies from one extreme to another. For the International Monetary Fund (IMF) as well as countries that stand to benefit from it, globalization offers the world and more so the developing countries not only the option for rapid growth but also the opportunity to catch up with the advanced countries. According to the archtypical proponent of globalization (IMF 1997) "Countries that align themselves with the forces of globalization and embrace the reforms needed to do so, are likely to put themselves on a path of convergence with the advanced economies... Countries that do not adopt such policies are likely to face declining shares of world trade and private capital flows and to find themselves falling behind in relative terms."

At the other extreme, a good number of researchers are apprehensive of the consequences of globalization. What the out-turn would be are imagined to range from the purely apocalyptic to the division of the world into poor and rich on a grand and unprecedented scale. In his latest book, Greider (1997) concludes that the rapid spread of free market is spinning out of control and will be rejected by the entire population of the world. He arrives at this dire ending capitalism on the basis of three converging factors that are the making of the unbridled expansion of capital. The first is the global glut in output. The world is producing goods and services in quantities that are beyond the current effective demand. In those countries where multinationals migrate in search of low wages, the workers cannot consume what they have produced because of their low and declining income, while the volume of goods exported to the developed economies are beyond the capacity of consumers in these countries. This glut is likely to throw sand in the machinery of frantic production increasing process. Secondly, the rapid and unregulated financial flows will create asset bubbles around the world but more so in the emerging markets which will eventually burst and induce long cycles of economic contraction and deflation. The third factor that the author foresees as endangering capitalism is the damage that the current pace of industrialization imposes on the environment such as the depletion of the ozone layer, global heating etc. He goes on to contend that there is no one in control. Multinationals are interested in increasing their market share; lenders and investors in the return in their investment and while politicians have abdicated their responsibility of managing the economy and society to market forces. Unless the politicians reassert their authority on the market and initiate the process of governing and managing it in a socially beneficial manner, capitalism's unbridled global expansion will be rejected by the people.

With respect to the distribution of the benefits that globalization is expected to additionally generate, there is an emerging consensus that it will worsen the current unequal allocation which may be remembered as the golden age of global

distribution. In this regard even the IMF (1997) after acknowledging that "there has been an increasing polarization among developing countries and that many poor countries have been falling relatively farther behind " with increased globalization, it goes on to point out that "countries that are near the bottom of the world's distribution of per capita income face difficult conditions".

An Economic Commission for Africa (ECA) study (1994) estimates that world trade will grow by at least US$ 200 billion per annum when the Uruguay Agreement comes into effect fully early in the next century. Of this annual increase US$ 140 billion or 70% would go to the developed countries and the remaining US$ 60 billion or 30% would be shared among developing countries. African countries on the other hand are estimated to incur a loss of US$ 2 billion every year. The major force behind the inequitable distribution of benefits of globalization is the cut throat competition between regions, countries and firms that rewards the winner with every thing, and leaves nothing for the losers.

The substitution of global cooperation by competition leads to not only the enrichment of the few and impoverishment of the many who lack the means and the capacity to effectively compete in the global market place but may also lead the world to conflicts and wars. We will end the impact of the globalized economy by replicating Paul Streeten's (1997) overall balance sheet.

Balance Sheet of Globalization

Good For	Bad For
Japan, Europe, North America	Developing countries
East and South East Asia	Africa and Latin America
Output	Employment
People with assets	People without assets
Profits	Wages
People with high skills	People with few skills
The educated	The uneducated
Professional, managerial and technical people	Workers
Creditors	Debtors
Large firms	Small firms
Sellers of technically sophisticated manufactured goods	Sellers of primary commodities
Global culture	Local culture

3. THE GLOBALIZATION OF THE ETHIOPIAN ECONOMY

Beginning in the early years of the 1980s the developing countries were fast joining the global economy by adopting policies that were later to be christened " the Washington Consensus" by John Williamson (1990) which were inspired and supported by the IMF and the World Bank. Williamson summarizes the most important components of this policy framework as follows.

a) Fiscal Discipline. The operational budget deficits-properly measured to include governments at all levels, public enterprises, and the central bank- should be no more than 2% of GDP.

b) Public expenditure priorities redirected and limited to primary healthcare, primary education and infrastructure.

c) Tax reform to be directed to broadening the tax base and reducing the marginal tax rate.

d) Financial liberalization including the removal of all direct controls in favor of the market including the dismantling of exchange controls.

e) Devaluation of the exchange rates and the unification of the exchange rate regime.

f) Trade liberalization to eliminate quantitative restrictions and reduce tariff to at most to 20%.

g) Foreign direct investment. Barriers impeding the entry of foreign firms should be abolished; foreign and domestic firms should be allowed to compete on equal terms both in the world and domestic markets.

h) Privatization. All public enterprises should be privatized.

i) Deregulation of the domestic market and prices to be determined by the market.

j) Property rights. The legal system to provide secure property rights without excessive costs.

Going through the reform program adopted by the Ethiopian government since 1992 (see for example Government of Ethiopia 1996) it is very difficult not to see similarities between it and the "Washington Consensus." In acceding to the demands of the Bretton Woods institutions, Ethiopia, along with the countries that preceded it and those that are likely to follow, has lost the authorship of its economic policy. An important ramification of the reform program originating with the Bretton Woods institutions is that the policy framework lacks national objectives, save that of price stability. But even this singular objective is made unattainable by the adoption of policies that are inimical to its achievement. In developing countries such as those of Ethiopia the factors behind inflation and inflationary pressure source from insufficient supply relative to demand. At the same time the economy suffers from high unemployment of human and physical resources. Despite this the Washington consensus calls for the stabilization of prices by drastically reducing demand rather than by expanding supply to bridge the gap between supply and demand by making use of underutilized resources. While demand reduction is the correct policy for those countries that are at full employment and are therefore located on their transformation curve facing vertical supply, it certainly is not a growth oriented adjustment framework which is relevant for those countries that are suffering the consequences of huge and increasing unemployment.

What are the consequences of an open economic framework? The first and most important impact is the deindustrialaization of the economy. It is impossible to think of how the manufacturing industries can survive the intense global competition. Much more than the possible deindustrialization of the country which is a distinct possibility in the globally competitive market place, the agricultural sector, the mainstay of the economy, will be under threat because of its drastically low productivity. With an agricultural labor force of no less than 80% that is incapable of feeding not more than 20% of the non-agriculture dependent population, one can imagine the very low level of productivity the sector finds itself in.

4. THE ROAD AHEAD

If the globalized world is not offering us an opportunity for growth, expansion of employment opportunity and equitable income distribution and therein carries the seeds for civil unrest and political instability what alternative does this country have? It seems to me that this is an area that requires the focus of our policy makers and poses the greatest challenge to economists. In the process of drawing up a viable plan of action it will be necessary for us to start from our initial condition or the state at which our economy and society currently find themselves in for inspiration and guidance.

First we are the poorest of the poor countries in the world. The latest World Development Report of the World Bank (1997) generously puts us ahead of Mozambique on a per capita income basis. But the reported per capita income for Ethiopia is definitely wrong. With a per capita income of US$ 100 and a population of nearly 60 million, this amounts to a nominal GDP exceeding Birr 42 billion. Official GDP estimate for 1996 is Birr 38 billion and population of 59 million which figures out at a per capita income of Birr 644 or about US$ 90. This amounts to less than Birr 2 (or about US$ 0.25) per person per day. The latest Human Development Report (UNDP, 1998) ranks us at an unflattering 168th out of 174 countries for 1995.

The point of departure for the Ethiopian government is to commit itself to reduce poverty, an enormous and yet a necessary challenge. A recent study by the UN Economic Commission for Africa (1999) indicates that if Ethiopia is to reduce the proportion of its population living in absolute poverty by half by the year 2015, it has to attain and sustain a real GDP growth rate of 7.3 per cent per annum. This requires an annual investment of 32 per cent of GDP, nearly double of what it currently invests.

If this country is to meet these challenges, the state must be made to play a central role. The fact that we misused the state in the past should not be a ground for the total invalidation of it. If handled carefully and with close cooperation with the private sector in a domestically competitive economy it could be used as an effective

instrument for the socio-economic transformation of the country in as short a period of time as possible.

Given the challenge of reducing poverty and the role of the state and the private sector, the processes of globalization should be made consistent with and supportive of this objective. For this purpose, the country needs to develop a policy framework to direct and define the conditions under which it would join the global economy. Towards this end, it would help to breakdown globalization into its four components of a) trade b) financial flows c) investment and d) transfer of technology.

Start with financial flows. Given the low level of saving due to the low level of income, the nation would need as much financial flows as possible. What is important is not how much flows in as much as the nature of these flows. Recent experience in the South-East Asia and Chile in the 1980s suggests that countries should encourage financial inflows of medium and long term duration, and minimize the short term flows. A modality to discourage short term flows is the one employed by Chile, who requires a minimum stay of at least one year; imposes taxes on short term flows; requires deposit of a sizeable proportion of short term inflows in non-interest bearing account. Such a policy regime has helped to ensure that inflows into Chile have been of medium to long term nature.

The second point about financial flows is one of investing in activities whose rate of return is higher than the rate of borrowing. This is important if the country is to avoid falling into the debt trap.

As with financial flows, foreign investment, and more so foreign direct investment needs to be encouraged as much as possible. On the other hand it has to be wary of portfolio or short-term investment, as a sudden reversal of such flows would destabilize the economy. In similar fashion, technological inflows should also be encouraged, as such inflows would not only increase efficiency but are a major medium for human capital development.

Trade requires to be handled with caution and care, as it is a necessary activity and at the same time would have significant impact on the domestic economy and the pace of development. Trade policy must be consistent with the national development policy, of which industrialization is a must. To accomplish this task, the country needs to export as much as is necessary to import what developmental factors it requires from abroad.

Import policy must be sensitive to two important aspects of the national development process. The first is the protection of the domestic industries. This is a necessity if the nation is to industrialize. The second aspect of export policy is to ensure that foreign exchange is conserved and used for the purpose of national development and not wasted.

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