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FINANCIAL SECTOR REFORM

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FROM THE EDITOR

This issue of *Economic Focus* contains two of the articles presented at the round table discussion on "Financial Liberalisation and Resource Mobilisation in Ethiopia" organised by the Ethiopian Economic Association and other articles from other contributors. The topic of the round table discussion was selected in the belief that it is a timely and important topic for countries like Ethiopia which are in the process of reforming the financial sector and attempting to mobilise financial resources. The two papers published in this issue of *Economic Focus*, which were presented at the round table discussion are by Yohannes Ayalew and Lakew Alemu. Ato Yohannes looks at sequences of financial sector reform in Ethiopia over the period 1992/93-2000/01 while Dr. Lakew discusses financial sector reform in Ethiopia and the challenges ahead.

Four additional articles on various issues are also published in this issue. These papers deal with sustainable development and community participation; antidumping; globalisation; and the Agricultural Development-Led Industrialisation strategy and land tenure. Enjoy your reading!

SEQUENCES OF FINANCIAL SECTOR REFORM IN ETHIOPIA 1992/93-2000/01

Yohannes Ayalew

National Bank of Ethiopia

1. INITIAL CONDITIONS

The Ethiopian financial sector was highly repressed for about 17 years during the Derg period. It was virtually passive. The government largely *obviated* the need for intermediation, with the financial sector ignoring risk and accommodating the credit demands of the state plan. The structure of financial institutions was narrow and segmented and about 70 per cent of the assets of the financial institutions were controlled by the National Bank of Ethiopia (NBE) and the Commercial Bank of Ethiopia (CBE) alone.

During the period, monetary policy was fully geared toward supporting the centrally-planned economy, with financial institutions serving principally to meet the demand for credit by the central government and public enterprises. Monetary control was exercised directly, with bank credit allocated to accommodate plan targets. Interest rates were directly fixed by the NBE and preferential rates were given to socialist-oriented industrial and agricultural co-operatives and public enterprises. Lending interest rates for public enterprises were 6% and 8% in agriculture and industry respectively while the respective figures for private borrowers were 8% and 9%.

Depositors were taxed for depositing money in the banking system. Despite a rising inflation,

especially towards the end of the Derg regime, depositors were allowed to get only 1 per cent interest for deposits in excess of Birr 100,000. This encouraged consumption and widened the resource gap in the economy. Real rate of saving averaged about 4.8 per cent of GDP between 1989/90 and 1990/91.

There was also excessive control in the external sector. Foreign exchange was rationed according to government plan and the largest share was directed to public enterprises. As the control *stiffened* and the premium to get foreign exchange from official sources went up, increased number of importers preferred to go through the parallel market. Consequently, the wedge between the official and parallel market rates widened to 248 per cent in 1991/92.

The unfavourable exchange rate of the Birr coupled with deteriorating external terms of trade worsened the trade balance of the country. Trade deficit/GDP ratio averaged about 7.37 per cent between 1989/90 and 1991/92 (computed from NBE Annual Bulletin, 1993/94).

2. SEQUENCES OF REFORMS IN THE FINANCIAL SECTOR

In view of the excessive control exercised during the Derg period, the current government preferred

to undergo a cautious and gradual approach towards liberalising and reforming the sector. This section will try to review the sequences of reform measures.

2.1. Financial Markets and Institutions

As a first step to forge a competitive and efficient financial market, the government relaxed the entry and exit policies of banks and insurance companies. The proclamations allow Ethiopian nationals to participate in the banking and insurance businesses. In the meantime, steps were taken to reorient the former Housing and Savings Bank (HSB) into a universal bank under the name of Construction and Business Bank (CBB), and the former Agricultural and Industrial Development Bank (AIDB) was recapitalised and reorganised with a new name—Development Bank of Ethiopia (DBE). These banks have got increased managerial independence with respect to their own internal affairs.

The National Bank of Ethiopia has also undergone modest restructuring. A Bank and Insurance Supervision Department was established in 1996. The Department is entrusted with the responsibility of supervising the viability of banks and insurance companies by setting international standards like bank capital adequacy ratio, single borrowers limit, etc.

Following the liberalisation, the number of financial institutions increased significantly. As at May 2001, the number of commercial banks and insurance companies increased to 8 and 9 from mono-commercial bank and insurance company structures, respectively. All new entrants are private companies.

2.2. Monetary Management

Monetary policy has been geared towards ensuring that money supply grows at a rate consistent with the objective of containing inflation, accelerating economic growth, and the balance of payments improvements, while allowing reasonable credit growth to meet the demands of the productive sectors, particularly the private sector.

Between 1992/93 and 1995/96, broad money (M2) was directly targeted to control inflation and ensure sustainable growth in the economy. Ceilings were put on the total amount of commercial banks lending to the economy and net government borrowing from the banking system. With the introduction of T-bills in January 1995 and the sufficient mop up of excess liquidity in the economy through government repayment strategy, the ceiling on banks was lifted in 1996/97. And monetary control continued to be exercised through government borrowing and treasury bills sales.

In the meantime, an inter-bank money market was introduced in September 1998 to facilitate the move towards the use of indirect monetary instruments. However, due to the presence of huge excess reserves, particularly with the CBE, the largest bank, and lack of sufficient stocks of securities like T-bills in the hands of other commercial banks, the market has not successfully been used. In November 2000, the NBE, therefore, introduced a two-year government bond and sold about Birr 3 billion worth of bonds.

This measure, in addition to a huge volume of treasury bills sales, significantly reduced the excess reserves in the banking system and enabled the NBE to resort to targeting its own reserves rather than broad money. Therefore, one major development in the Fiscal Year 2000/01 is the shift from direct targeting of broad money to NBE reserves.

2.3. Interest Rate and Credit Reform

NBE began its financial reform by lifting up the minimum deposit rate from 1 per cent to 10 per cent in October 1992. This was believed to discourage excess consumption and *help*. And, to avoid distortions in resource allocation, the differential rates among types of depositors have been abolished. However, on the lending side, preferential rates continued to be applied until December 1, 1995, when the NBE began to set only the minimum deposit and the maximum lending rates. This allowed banks to set their own rates between the margin. Effective January 1, 1998, the ceiling on lending rates has been lifted and made free to be determined by the banks themselves.

The credit market has also been liberalised. Commercial banks and specialised banks began to decide on the amount and structure of loans except those for prudential reasons. The NBE no longer dictate them on these matters. They are not, however, allowed to apply different interest rates to different sectors without the prior approval of the NBE.

The above measures helped the NBE to avoid a jump in lending rates that results from distressed borrowing and excessive risk taking behaviour of commercial banks that usually happens at the beginning of a financial reform. Other countries' experiences also support this. Deregulation of interest rates and credit controls occurred early in the reforms in Argentina and Chile. These coun-

tries experienced significant financial deepening but also faced problems of loss of control over domestic financial aggregates following their financial reforms. Consequently, nominal interest rates jumped significantly. In Argentina, for example, the nominal deposit rate increased from 56.1 per cent at the beginning of the reform (i.e. 1976) to 273.1 per cent in 1983. On the other hand, Indonesia liberalised administrative controls over bank credit and interest rates more gradually and did not experience the same loss of control.

As a result of these reforms the real interest rate picked up from -19 per cent in June 1992 to an average of 3 per cent between 1993/94 and 1999/00 (computed from unpublished NBE sources).

2.4. Foreign Exchange Market

In the foreign exchange regime, the Birr was initially devalued from Birr2.07:1US Dollar to Birr 5:1US Dollar on October 1, 1993. Besides, the government introduced a bi-weekly foreign exchange retail auction on May 1, 1993. By this reform, government preferred to apply a two-tiered exchange rate system until the foreign exchange market stabilised. The official rate which used to be directly fixed by the NBE was applicable for strategic imports such as fertiliser and fuel, and for repayments of government external debt while the marginal rate determined at the auction was applicable to all other commercial transactions. However, when the foreign exchange market began to stabilise and the gap between the parallel and marginal exchange rates showed substantial decline, the two-tiered system was abandoned and the two rates were unified on July 25, 1995.

Intensifying the move toward liberalising the exchange rate, the NBE took two important measures in 1998. First, in August 1998, the bi-weekly foreign exchange retail auction was re-

placed by a weekly wholesale foreign exchange in which only banks and investors with a foreign exchange demand of beyond USD 500,000 are allowed to participate. All other importers have been allowed to purchase from commercial banks on daily rates quoted by the later. This is believed to improve the efficiency of the market. Besides, commercial banks are allowed to open foreign exchange bureaux. Today, there are 17 foreign exchange bureaux in the country.

Second, an inter-bank foreign exchange market was introduced in September 1998 to increase the efficiency of the foreign exchange market and ultimately replace the wholesale foreign exchange auction.

Following the reform in the foreign exchange market, the gap

between marginal and parallel exchange rate narrowed. At the end of May 2001, this gap narrowed to 3.23% while the gap between forex bureaux and the parallel market rates is only about 0.58%.

3. CONSTRAINTS TO FINANCIAL SECTOR REFORM

Despite the successes registered during the reform, the financial sector liberalisation has faced a number of constraints. To begin with, the protracted and excessive controls exercised *vis-à-vis* the operations of banks during the 17 years of central planning impinged upon the speed of banks adapting themselves to a market system. Second, lack of competition among commercial banks both in the deposit and

loan markets slowed down the speed of interest rates liberalisation. Thirdly, the huge excess reserves inherited by the CBE from the past regime remained a hurdle in the transition from a direct to indirect monetary policy regime. Due to its huge excess reserves, the CBE remained independent in the inter-bank credit market particularly from the NBE. This also dampened the level of interest rates in the treasury bills market.

4. CONCLUSION

To conclude, the gradual approach in financial sector reform has helped Ethiopia to attain a stable exchange rate and low inflation with a relatively high growth in output and investment. ■

Quotable Quotes

True individual freedom cannot exist without economic security and independence. People who are hungry and out of a job are the stuff of which dictatorships are made.

Franklin D. Roosevelt
message to Congress
January 11, 1944

• • •

If ignorance paid dividends, most Americans could make a fortune out of what they don't know about economics.

Luther H. Hodges
Wall Street Journal
March 14, 1962

• • •

You don't make the poor richer by making the rich poorer.

Sir Winston S. Churchill
quoted
To the Point International
November 1, 1976

A national debt, if it is not excessive, will be to us a national blessing.

Alexander Hamilton
letter to Robert Morris
April 30, 1781

• • •

Our Constitution is in actual operation; everything appear to promise that it will last; but nothing in this world is certain but death and taxes.

Benjamin Franklin
letter to David Hartley
December 4, 1789

• • •

People are glad to be defended, but they are not glad about paying for it.

Man lässt sich gern schützen, aber man zahlt nicht gern.

Prince Otto von Bismarck
speech in the Prussian Chamber of Deputies
June 1, 1865

FINANCIAL SECTOR REFORM IN ETHIOPIA AND THE CHALLENGES AHEAD

Lakew Alemu

Awash International Bank

1. OBJECTIVES OF FINANCIAL SECTOR REFORMS

In Ethiopia, financial sector reform was initiated back in 1992 as one of the important components of the economic reform programme under the Structural Adjustment Programme (SAP).

The main objectives of the financial sector reform were:

i. To deregulate financial sector activities with a view to improve mobilisation of domestic resources for investment.

ii. To improve the efficiency of financial intermediation through greater reliance on market forces in resource allocation.

iii. To create conditions for the use of market oriented instruments in the implementation of monetary policies.

The core target of the reform objectives was however to promote saving, investment and economic growth.

2. REFORM MEASURES UNDERTAKEN

In its attempt to achieve the above reform objectives, the government has introduced a number of measures, of which the major ones are the following:

a. Adjustment of the exchange rate through devaluation of the birr.

b. Abolishing sectorally discriminating lending rates.

c. Reduction of directed credits to inefficient state enterprises.

d. Allowing the establishment of local private banks and micro-financing institutions.

e. Adopting regulatory and supervisory frameworks for banks and financial institutions in areas such as capital adequacy, information disclosure and accounting requirements.

f. Strengthening the capital base of state owned banks (Development Bank of Ethiopia).

g. Introducing foreclosure law to facilitate quick recovery of non-performing loans by banks.

h. Improving access to forex for imports through auctions and partial transfer of forex functions to commercial banks.

i. Introducing forex earnings retention/utilisation scheme for exporters.

j. Introducing a market for short-term government debt instrument (treasury bills of different maturity and bonds).

3. IMPLICATIONS OF THE REFORMS IN THE FINANCIAL SECTOR

Both theory and empirical evidences tell us that savings, investment and growth are determined not only by financial sector reforms but also by factors such as structural reforms in the real sector and by fiscal policies.

Certainly, the reform efforts of the past years have had certain impacts on the growth of the economy as a whole and on the financial sector in particular.

According to the official data from the National Bank of Ethiopia, during 1995/96 to 1999/2000 real GDP has grown on the average by about 3.8% annually. Investments in the private sector had been rising steadily except for the last two years, when declines were observed mainly on account of the border conflict with Eritrea. As far as investment and growth as a whole are concerned, these results are encouraging, but they are not satisfactory compared to the high rate of population growth which on the average was about 3% in the past 5 years.

Looking at the resource mobilisation aspect of the financial sector, we observe that significant progress has been achieved after the reforms. This is reflected in the expansion of total banking

liquidity (deposit) which stood at birr 20.4 billion at the end of June 2000 compared to birr 4.9 billion at the end of June 1992 (Annual Report, 1992 E.C., National Bank of Ethiopia) As regards resource allocation for investment purposes, the banking sector has disbursed a growing volume of credit to the private sector which is a sign of improvement of resource allocation.

It has also been observed that a certain level of efficiency of financial intermediation has been attained after the financial sector reforms. This is evidenced by the declining trend in the ratio of reserve money to deposits which was about 4% in 1999/2000 compared to 9% in 1995/96.

On the other hand, the extent and depth of financial intermediation has not shown visible improvements during the past 5 years. The ratio of money supply (m2) to GDP has remained more or less at the same level (41%) for the period from 1995/96 to 1999/2000 Annual Report, 1992 E.C., National Bank of Ethiopia).

Competition which was unknown in the banking sector before the reforms has now unfolded and is becoming visible with the emergence of private banks in the past few years. Competition in financial sector is desirable, because it enhances operational efficiency and reduces intermediation costs of the competing banks.

In addition to private commercial banks, the growth of micro-finance institutions in the country has also been remarkable. As at the end of March 2000, the number of these institutions was 16 with an aggregate deposit of birr 130 million and a loan portfolio of over birr 550 million to poor rural and urban entrepreneurs.

In conclusion, we can say that the financial sector reforms have been effective in that they have encouraged competition among existing banks, improved the

tempo of resource mobilisation, and created conditions for better allocation of resources to the private sector which has started to play an important role as engine of growth in this country.

4. FACTORS AFFECTING THE GROWTH AND FUNCTIONING OF THE FINANCIAL SECTOR IN ETHIOPIA

Despite encouraging reform efforts so far undertaken in the financial sector and the positive achievements observed, there are certain factors which affect the growth of a well-functioning banking system in our country.

At the current stage of its development, the domestic financial sector falls short of achieving the required level of dynamism, efficiency and depth. There are a variety of contributory factors for this. Some are specific to the financial sector, while others are of macro nature. These factors are briefly explained below.

4.1. Specific Factors

4.1.1. Dominant Role of the Government in the Financial Sector

Currently, government banks control over 90% of the local financial market. This situation may hinder the growth of a well-functioning banking system because the young private banks are not in a position to properly compete with the dominant banks.

Monopolisation of the financial sector and entry barriers against foreign banks will weaken competition. One can argue that weak competition might increase profitability of existing banks, but that would be at the expense of growth and efficiency of the sector.

Another problem related to the dominance of ownership in the banking sector is that institutions in the public sector are not encouraged to do their banking business with private banks of

their choice. Today this is an existing reality in this country.

4.1.2. Administered Interest Rate

Currently, interest rates are partially determined by the supervisory authority, i.e. the National Bank of Ethiopia (NBE). Currently, the minimum floor for savings is 6% and for loans it is 10½% with a tight margin of only 4½%. In my opinion, this is not congruent with potential risks banks are exposed to (credit, market, operational).

Here, I am not proposing structured interest rates. Interest rates with different tiers may cause market fragmentation and might lead to an inefficient allocation of resources.

Moreover, low lending interest rates may cause inefficient resource allocation and discourage savings thus negatively impacting resource mobilisation. It is believed that full deregulation of interest rates improves competition in resource mobilisation and efficiency of resource allocation.

4.1.3. Supervisory/Regulatory Mechanisms

Close supervision of banking institutions is necessary and very important because of the risk inherent in the business.

Regulation of banks normally involves setting capital adequacy levels, defining single borrowers' loan limits, prohibiting majority holdings in private banks, requiring information disclosure or reporting, requiring adherence to monetary policy instruments (reserve and liquidity ratios), conducting periodic supervision of overall activities of financial institutions, etc.

Currently, these supervisory mechanisms are already in place, but their effectiveness is still under question.

Regulatory and supervisory mechanisms and instruments of

the supervisory authority need to be well-designed and effective. Shortcomings in this area may result in risks for the institutions.

The National Bank of Ethiopia should, therefore, further strengthen its supervisory arm in terms of professional competence and ensuring the effectiveness of its regulatory mechanisms.

4.2. Macro Issues

4.2.1. Stable Economic Growth

The macro environment under which the financial sector operates has a significant bearing on its efficiency and effectiveness.

When macro economic issues such as prices, inflation, investment policies, exchange rate, trade policies, employment conditions, etc. tend to be unstable or volatile and unpredictable, the business community reduces its borrowings from the banking system to avoid risks. This means low tempo of savings and investment activities in the country.

Lack of policy clarity and uncertainty about the future course of direction creates doubts in the minds of potential investors regarding expected risks. This will finally affect the process of economic growth, without which a modern financial sector cannot develop.

4.2.2. Weak Legal/Court System

Absence of appropriate legal framework or poorly functioning court system hinders the proper running of the financial system. Existing problems include:

- Lag in the enforcement of contracts related to negotiable instruments (e.g., checks);
- Constraints regarding pledge of movable property as collateral and;
- Difficulties related to the implementation of the Foreclosure

Law and transfer of property rights erode the confidence of the business community in activities of the financial institutions.

Efficient court system and fast dispute resolution by courts will promote efficiency of financial intermediation and public trust and confidence in the financial system.

4.2.3. Weak Infrastructure

The financial sector requires the availability of basic infrastructure. For instance, monetisation of the economy or integration of financial markets within the country will be constrained if there is no possibility for rapid transfer of funds and information by banks.

The size of the financial sector and its ability to function properly depends on adequate infrastructure, both physical and human.

Similarly, if professionals such as accountants, auditors, financial analysts are in short supply, it would be difficult to produce reliable information on the viability and reliability of financial intermediation, particularly in the area of risk management.

4.2.4. The Need to Develop Money/Capital Markets

The basic aim of monetary policy is to maintain price stability, by ensuring that the growth in money supply does not exceed the demand for money. In reality, however, the rate of growth of money supply is not identical to that of credit due to investment opportunities and government borrowing.

It is therefore necessary to develop other financial assets and markets on which the financial assets will be sold and bought. These are money and capital markets. These markets provide relatively cheap source of finance both on a long term and short term basis.

Legal and regulatory framework for marketing shares, stocks, bonds, treasury bills, CD's, etc. has to be developed on the basis of the experience gained so far. The activities of the Steering Committee on the formation of a Stock Exchange in the country is an encouraging step in this direction.

Given the existing low level of domestic savings and an extremely backward economy, the domestic financial sector cannot adequately meet the needs of the private sector for both short- and long-term investment finance. This requires preparation of conditions for the existence of institutional investors such as mutual fund managers, brokerage houses, trust funds, finance companies, etc. to further improve mobilisation and allocation of resources to accelerate economic development.

5. CONCLUSION

A healthy financial system is the one which effectively fosters resource mobilisation for capital accumulation and determines efficient allocation of resources. It is important to remember that success of any financial system, in its resource mobilisation and allocation functions, depends on its ability to offer the public a variety of assets (money as a medium of exchange, earning assets, pension funds, etc.) corresponding to the various needs and preferences of economic agents.

A clear understanding and recognition of this fact is very important to formulate appropriate policies to enable the financial system to function properly and efficiently.

A set of macro-economic and sectoral policies supported by dependable legal and institutional infrastructure are very important and necessary for the development of a sound and rational financial system in Ethiopia. ■

SUSTAINABLE DEVELOPMENT AND COMMUNITY PARTICIPATION

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In a remarkable short period of time, 'sustainable development' has become one of those protean concepts that means a hundred different things to a hundred different people (Jonathon Porritt 1998).

Nowadays, the concept of sustainable development is becoming the most popular and widely spoken notion among developmentalists. But at the same time it is becoming an acute challenge to the political elites and government officials of our age. Given its wider application in our daily vocabulary, every developmentalist, government official or an ordinary citizen should have defined it similarly. Nevertheless, it seems that every of these stockholders understands this concept differently. Therefore, before proceeding to the evaluation of the link between sustainable development and community participation, it is necessary to have an insight into what is meant by sustainable development.

CONCEPTUALIZING SUSTAINABLE DEVELOPMENT

The debate about exactly what sustainable development means is going on since 1980s. In spite of the fact that many conferences and summits have been held on this theme to narrow the gap and eliminate disparities of understandings, it still remains a widely debatable concept and means different things under different circumstances encompassing a

wide range of concepts from environmental security up to community participation, social justice, democratic governance etc. For many people it started to mean almost any thing they want it to mean. The very ambiguity, not to say contradiction of the term, allows interests from many different walks of life to debate it and to seek to achieve it. Because sustainable development is seen as a 'good' thing, its interpretation is stretched to accommodate almost any unrequited social goal (Lele 1991:613). It is beginning to adopt the mantle of a new renaissance idea that covers the whole human endeavour and planetary survival. For the purpose of this article, however, we would like to consider the original definition proposed by the Brundtland Commission (more formally known as the World Commission on Environment and Development), which was used throughout the United Nations Conference on Environment and Development (UNCED) in Rio in 1992 (the Earth summit), which states:

Humanity has the ability to make development sustainable—to ensure that it meets the needs of the present without compromising the ability of the future generations to meet their own needs. (WCED 1987:8).

As could be seen from the above definition, an emphasis is made on three interrelated concepts: humanity's ability to make development sustainable; the necessity to meet immediate needs of

present generation; and the necessity to take into account the needs of future generations. Despite the fact that 'environment' is not mentioned in the above definition, it is the environmental issue, which became the central point of discussion since the original reference of Brundtland Commission in 1982 and the subsequent summits. Because environment is the place where we all live, and development is what we all do in attempting to improve our lot within that abode, the two are inseparable. Nevertheless, discussions about sustainable development underwent a significant change during the last decade evolving from a mere environmental debate to a wider notion that includes community participation as well.

Challenges are being made to the conventional scientific discourse with the emergence of the concept of a 'civic science' which recognises that science must become an increasingly interactive process between lay and expert people, reconnecting science and its cultural context. Hence, owing to these changes the meaning of sustainable development is now sought as the creation of a society and an economy that can come to terms with the life support limits of the planet in a way that enables the most vulnerable people to survive with dignity in a self reliant manner (Tim O'Riordan 1989: 97). In general its philosophy lies in an integrated socio-economic development through participative structure, which transcend the old administrative division, and in

so doing reinvigorates a citizenship and social cohesion, because the ways in which progress is measured are also amenable to wide participatory action. If local people can be involved in creating visions of sustainable future world, and in setting indicators for progress towards that goal, then they can strive for its success. Therefore, as Baines (1995) puts it correctly, sustainable development can be achieved only if it is deeply rooted in every local neighbourhood as success can only come through active participation from all corners of the community with individuals and organisations playing to their own particular strengths.

COMMUNITY PARTICIPATION AND EDUCATION AS CRUCIAL FACTORS FOR SUSTAINABLE DEVELOPMENT

Examined carefully, humanity's ability to make development sustainable depends on community's knowledge about environment, technical mastery and participation in the discussion of policy issues. In order to make people aware about environmental problems it is necessary to build their capacity through education and training. Education is therefore an essential imperative for sustainable development. The argument runs that if ordinary people do not care about development being sustainable, and change their attitudes and behaviour, any amount of policy programs will fail. Learning about sustainability is important and community approach to education for sustainability usually recognises that education and action in these circumstances are closely allied.

Participation in practical projects and policy discussions, as an experimental form of community education, is increasingly recognised as a learning experience, which can reinforce positive message about sustainable life-

style and sustainable development. Participatory action helps build caring from knowledge and experience, and when people care about something, they will fight for it. Participatory action like community development is an educational process in broadest sense, where participants learn by doing. (Diane Warburton 1998: 28)

The ability to make development sustainable is a potential energy inherent in any society. But not every society makes development sustainable; because the level of knowledge about environment varies, i.e., the knowledge about the relevance of ecological and biological diversity, renewability and non-renewability of natural resources depends on the level of community education. It is through education and capacity building that any potential energy can be changed into practical ability and skill. The technical mastery of the society that enables to exploit natural resources properly and wisely without endangering its very existence also depends on the level of education. Hence, to build the capacity of a community that helps to make development sustainable, it is necessary to make capacity building itself part of a wider educational process. And this education should not be a one-way process, where one is teaching what to do and the other is a silent recipient. It should be a participatory learning and teaching process where every stakeholder has a say and contribute to the given end. Learning through debate and dialogue will always be essential to sustainable development. The paradigm we are seeking is one that does not provide a fixed and final answer, but offers a way of thinking about change, which is organic and flexible, and continuously developing.

Learning from others should go beyond any idea that professionals or experts have the answers, but recognises that negotiation

can take place in which experts and lay people come together in an interactive process, reconnecting science and technical knowledge and their cultural context. Placing different knowledges and, possibly values, alongside our own, allows us to re-evaluate our own knowledge and beliefs. It even supports the role of the professional or intellectual in bringing ideas to the process of change (Gramsci 1971). Once the space has been established for this potential to be explored and understood, new solutions can begin to be found. Careful examination of the above arguments shows that in order to make development sustainable, it is necessary to conserve environmental resources, support and build human capacity through education, and ensure participation of the local people in the decision and activities, which affect their lives and living environment. To achieve this goal, however, there should be a balance between community initiative and government development programs because it is through working with local authorities, that the greatest opportunities for community-driven sustainable development can be achieved.

The balance in the relationship between community organisations and government is being developed through experience, and by establishing new protocols of accountability and democracy, answering questions about how accountable or representative community organisations are, can or should be, and whether community organisations can or should offer opportunities for increasing involvement (Stewart 1993).

Of course, the proper balance between the public service responsibilities and community participation is difficult to achieve, but it can certainly be argued that:

'Every profession and public of-

ficial should respect those who depend on their services and find ways of giving them a voice which cannot be disregarded. That calls for more sensitive and effective civic leadership, not less of it, from democratically accountable public authorities'. (Donnison 1993)

Therefore, it can be argued that there is at present a unique opportunity for democracy and sustainability to revitalise each other because revitalising local democracy depends crucially on community participation agenda for two reasons. First, the emerging agenda of community participation and sustainable development requires strong local government if its goals are to be recognised. Second, the re-energisation of local democracy depends on strong commitment to sustainable development and no other source of civic energy is a plau-

sible contender for the task.

The whole idea forwarded in this article revolves around the fact that 'sustainable development' is the principal goal towards the achievement of which humanity should concentrate its energy and skill; and community is the key stakeholder in the battle for achieving this end. Therefore, it is necessary to encourage community-driven sustainable development from which every stakeholder can benefit.

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Expressions and Phrases

The mob has many heads but no brains.

Thomas Fuller
Gnomologia
1732

...

From fanaticism to barbarism is only one step.

Denis Diderot
essai sur le merite de la vertu
1745

...

To win without risk is to triumph without glory.

A vaincre sans péril on triomphe sans gloire.
Pierre Corneille
The cid
1636

...

A sword never kills anybody; it's a tool in the killer's hand.

Quemadmodum gladius neminem occidit; occidentis telum est.
Seneca (the Younger)
Letters to Lucilius, ca. 63-65

If a house is divided against itself, that house cannot stand.

Bible
Mark
ca. 70

...

I will follow the right side even to the fire, but excluding the fire if I can.

Michel de Montaigne
"De l'utile et de l'honnête"
Essais
1580-88

...

Delay is preferable than error.

Thomas Jefferson
letter to George Washington
May 16, 1792

...

My country is the world; my countrymen are mankind.

William Lloyd Garrison
prospectus
The Liberator
1830

AN OVERVIEW OF ANTIDUMPING

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1. SYNOPSIS

In the past few years, newspapers, radios and the TV used to carry stories about the complaints of local manufacturers regarding the adverse effects of unfair trade practices on Ethiopia's fragile industrial sector. The leather, textile and the food (edible oil) sub-sectors can be cited as examples that came up against dumping of like products to this country's market. Many of us may wonder why there are no laws to help domestic producers fight overseas competitors that may use inappropriate tactics to increase their market share. As far as our experience is concerned, there are no such laws against such trade practices. Whether or not the country is a member of the World Trade Organisation, it could be better for the Ministry of Trade and Industry to promulgate an Anti-dumping legislation and assign a competent department that should deal with International Trade Administration to hear antidumping duty files, to initiate antidumping investigations, to levy antidumping duties, to collaborate with customs to effectively administer the law, and ultimately to protect Ethiopian Business and jobs.

2. INTRODUCTION

Some very important trade legislations are non-existent in Ethiopia. This has paved the way for foreign competitors and cause injury on domestic like product manufacturers and sellers. The practice might have harmed the sectors in different ways. These adverse effects are detrimental to the growth and development efforts of the country.

One of the non-existent legislation is the antidumping legislation. In this overview, we shall see the various definitions of Antidumping including the WTO working definition, determination of dumping, definition of industry, initiation and conduct of investigation, imposition and collection of duties, the role of the Ministry of Trade and Industry (MoTI) and Customs, the role of Industries and lessons to be learnt in that order.

3. DEFINITION OF DUMPING

According to Collin (1996), dumping is the act of getting rid-of excess goods cheaply in an overseas market. Peterson (1990) also defines dumping as the act of a nation in selling its products abroad by setting the export price lower than its domestic price with the government-reimbursing producers for the difference or give it away as aid/donation. Taking these definitions in to consideration, dumping of excessively produced agricultural and industrial products to certain countries is considered as a tool of stabilising the exporting country's domestic market. This is practised in periods of over production to reduce the domestic supply and hence increase the domestic selling price to benefit farmers and manufacturers. Nagpal (1995) also defines dumping as a sale of good on a foreign market at a price below its marginal cost. Lindert (1991) defines dumping as international price discrimination in which an exporting firm sells at a lower price in foreign market than it charges in other (usually its home country) markets. He distinguishes between two types of dumping:

predatory dumping and persistent dumping. Predatory dumping occurs when the firm discriminates in favour of some foreign buyers temporarily with the purpose of eliminating some competitors and of later raising its price after the competition is dead. Persistent dumping, as its name implies, goes on indefinitely. This distinction helps a lot to distinguish which type of dumping occurs in the Ethiopian market. Persistent dumping to our country from known countries would mean that there is consistent overproduction of those traded goods in the exporting countries. This, therefore, requires continuous assessment and comparison between prices of imported merchandise and, usually, home market prices of the goods in question. No less measure is imposed on predatory dumping whose objective is to cut the throat of other exporters to the same market and as well retard domestic producers and sellers of the like product.

According to Article VI of GATT, dumping is understood as products of one country introduced into the commerce of another country at less than the normal value of the product, and causes or threatens material injury to an established industry or retards the establishment of a domestic industry. For the purpose of GATT's definition, a product is considered as being introduced into the commerce of an importing country at less than its normal value, if the price of the product exported from one country to another is:

a) Less than the comparable price, in the ordinary course of trade, for the like product when

destined for consumption in the exporting country, or in the absence of such domestic price, is less than either i) the highest comparable price for the like product for export to any third country in the ordinary course of trade, or ii) the cost of production of the product in the country of origin plus a reasonable addition for selling cost and profit.

However, allowance shall be made in each case for differences in conditions and terms of sale, for differences in taxation, and for differences affecting price comparability (WTO Agreement, 1994).

4. THE ECONOMICS OF DUMPING

There are arguments saying that we must exploit dumping so long as goods are offered at cheaper prices and benefiting consumers. As to Peterson (1990), at first glance it might appear that the act of dumping works to the advantage of the "dumper" and "dumpee", but later on it has been observed that there have been undesirable effects. First, exporters of comparable products suffer a reduction in the demand and price of their products. Second, producers in the "dumpee" country face a depressed market for their output

because of free or cheap products coming in. The U.S. International Trade Commission (ITC), upon whom the decision on material injury of dumping in that country rests, highly denounces the argument that dumping is to the advantage of consumers. The ITC, rather advocates that the injury should be assessed thoroughly as it is reflected by significant increases in the volume of dumped imports, price underrating, depression and prevention of price increases caused by dumped imports, resulting in actual and potential negative effects on domestic producers' sales, profit, output, market share, productivity, employment, capacity utilisation, cash flow, inventories, return on investment, wages, growth, etc. (ITC 1997).

Lindert (1991) advises to first understand what makes firms to sell below their marginal cost and charge foreign buyers less than their home market so that everyone knows whether dumping is good or bad and retaliation is necessary. According to him price-discriminating monopolists maximise profits by equating marginal revenue in both domestic and foreign markets with marginal cost. Such firms charge a higher price in the market where the demand curve it individually faces is less elastic (steeper). Usually this

happens in the home market if there are fewer substitutes for the product. In the foreign competitive market, however, the price it charges is less.

Let us illustrate this by following figure 1. In this figure we assume that Ethiopia imports 14" TV from country K. the importing country has only one producer of TV which competes locally with imported like products. If this producer is successful, other investors have lined up to join the sector to locally produce TVs of other brands. The exporting firm has equated the marginal cost and marginal revenue to maximise profit. In the Ethiopian market the profit-maximising price is US\$210, which makes the Ethiopian consumers buy X1 sets annually. In the exporting country market, where it is assumed consumers have fewer substitutes for that product, the profit-maximising price is US\$350, as a result of which consumers buy S1 sets a year. This price discrimination could be more profitable for the exporting firm than charging the same price in both markets. Nevertheless, the situation could cause injury to the domestic industry in business, which may be obliged to file an antidumping investigation.

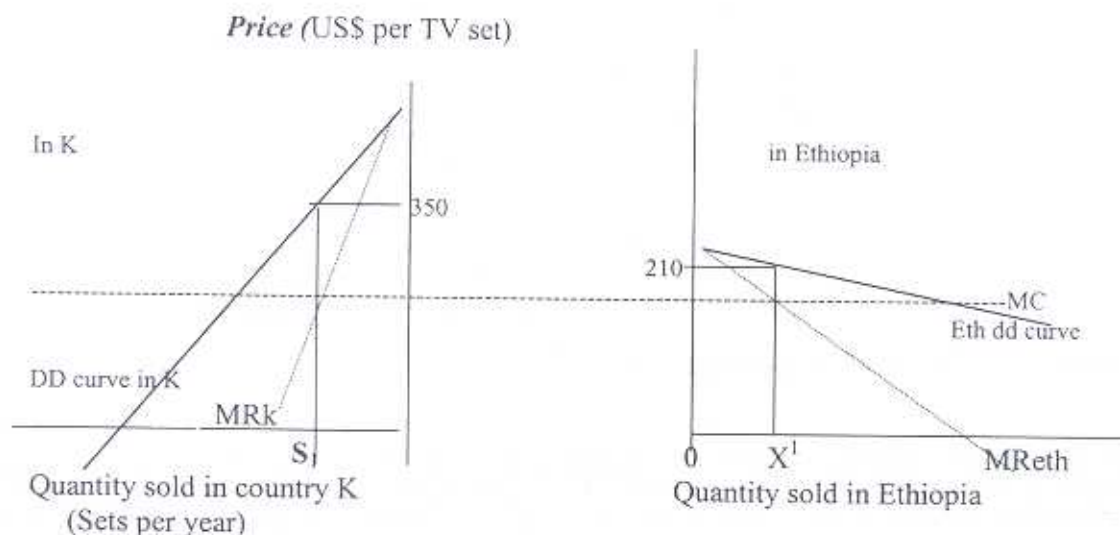


Figure 1: Dumping {This figure is taken from Lindert (1991) and adapted to the Ethiopian TV market}

5. INITIATION AND INVESTIGATION OF DUMPING

As indicated in the Agreement and learnt from the experiences of some countries, investigations of dumping should generally be initiated on a written request submitted by a domestic industry to an authorised body. The agreement establishes requirements for evidence of dumping, injury and causality, as well as required information regarding the product, industry, importers, exporters and other relevant matters. Investigations could continue up to one year or to no more than 18 months. In the case of the United States of America, investigation can be initiated either by International Trade Administration (ITA) in the Department of Commerce or an "interested party". Usually it starts by sending petitions simultaneously to International Trade Commission (ITC). The petition should include information indicated in the regulatory requirements for filing petition. Interested parties include producers or sellers (other than retailers) of a like product; a union or group of workers from the industries or sellers of a like product; an association representing members of the in-

dustry of a like product in the USA (Global, 1994). The initiation would lead to thorough investigation and determination of dumping and injury.

6. DETERMINATION OF DUMPING AND INJURY

A country cannot simply impose antidumping duties unless otherwise it in advance determines that there are dumped imports, material injury has occurred on domestic industry, and a causal link exists between the dumped imports and the injury inflicted on the domestic industry. Industry in this context is to mean producer of like product in the importing country.

In the determination process dumping is calculated on the basis of a "fair comparison" between normal value and export price. The injury has to be indicated based on positive evidence of the volume and price effects of dumped imports and the consequent impact on domestic industry in terms of depressed prices; lost sales; a general decline in sales, market share, profits, productivity, return on investment; or underutilisation of production capacity. Also relevant are the volume of imports and any negative effects

on employment, inventories, wages, and the ability to raise capital.

If the volume of imports is negligible or the margin of dumping is *de minimis*, investigation shall be terminated immediately *not to disrupt legitimate trade*. If, however, dumping and injury is substantiated by evidence, antidumping duties are sanctioned against the practice. As witnessed by Lindert (1991) and Kenen (1996), if ITA of the Department of Commerce of USA found the occurrence of dumping and the ITC confirms material injury on US firms, then the US Customs Service is instructed to levy an extra import duty equal to the proven price discrepancy. Nonetheless, as it is mostly practised the antidumping duty should be to redress the "injury" to the domestic market. As Lindert put it, there is no single and simple conclusion about the effects of antidumping duty. However, a duty to only offset the injury is best recommended to bring gains to the "dumpee" country. The following Figure illustrates the effects of a small antidumping duty to redress injury shown in the right hand side of Figure 1 above.

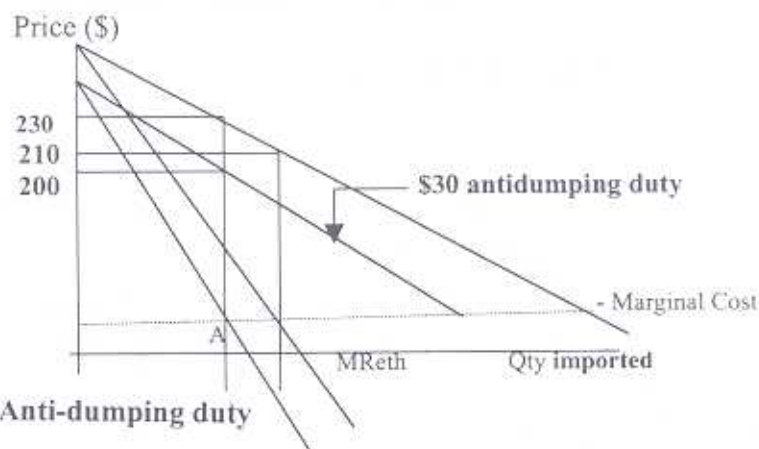


Figure 2: - Effects of Anti-dumping duty

Applying Lindert's explanation, in this diagram a duty of US\$30 shifts the Ethiopian demand curve down by this amount, with a corresponding effect on the marginal revenue curve pertaining to the

Ethiopian market. The foreign exporter finds that his profits are now maximised where the new marginal revenue curve cuts the marginal costs of extra output at point A.

The firm thus lowers the price from US\$210 to US\$200. Buyers respond by buying fewer TV sets at the now higher domestic Ethiopian price of US\$200 plus the \$30 antidumping duty, or

US\$230. The "dumpee" loses and gains from this retaliation. The loss is the efficiency loss on the extra TV sets no longer purchased, or the triangle marked with a minus sign. The gain is the mark down on the price of the sets that continued to be imported, or the shaded triangle. As can be seen the gain exceeds the loss for Ethiopia. Hence, this simple demonstration shows that antidumping would protect the domestic market of like products. I think Economist could write more on this issue to educate the public on the welfare gains and losses of antidumping duty if introduced in Ethiopia.

7. THE ROLES OF MOTI AND CUSTOMS

Basically the MoTI should in the first place have antidumping legislation which incorporates the necessary elements in the WTO agreement and the objective condition of the country. Taking into account the experiences of other countries, MoTI would be required to organise a department that deals with the administration of International Trade, may be in its Foreign Trade Division. This department should be empowered with the duties of educating the public on the issue, handling issues of anti-dumping, countervailing duties etc.... Also the establishment of International Trade Commission entrusted with the decision on material injury is highly important. In the USA, the International Trade Administration (ITA) in the Department of Commerce is investigating cases by commodity, country and foreign manufacturer or seller to determine dumping, to issue estimated or final antidumping duty order. However, the decision on material injury to an American industry rests with the International Trade Commission (ITC). The ITC/USA accepts records on investigations and evaluates the domestic like product and industry; the physical characteristics and uses of the product; interchangeability of dumped and domestic like prod-

ucts; the channels of distribution; common manufacturing facilities, employees and methods; producer and customer perceptions, price and price effects etc.... to decide on material injury (ITC/USA, 1997).

The Ethiopian Customs service should be aware of and have a thorough knowledge of this issue and collaborate with the MoTI to process entry of suspected dumping everyday by assigning import specialists at each clearance station; to implement and collect either estimated or final antidumping duty as directed by MoTI. The US customs service, for example, does not participate in the investigation of dumping cases or determination of antidumping duties; however, it plays an important role in the administration of the program. By the same token, Ethiopian Customs should be ready to participate in the administration of such a program if it comes to reality.

8. THE ROLE OF INDUSTRIES

Producers or sellers, a union or group of workers, an association representing members of the producers of the like product (other than retailers), be it in the private or public sector, should be knowledgeable as to how they should file antidumping duty petitions. They should know the regulatory requirements for filing a petition when they are available. Their petitions have to be objective to have resulted in orders to assess antidumping duties hence protect the Ethiopian business and jobs. Nevertheless, patience is required, as antidumping investigations are generally lengthy proceedings.

9. LESSONS TO BE LEARNT

There are lessons to be learnt from the above overview. In order to protect the business and jobs of the domestic industry of like products that would be interested to file petitions for antidumping

duty, the following should be in place:

- antidumping legislation;
- a competent department that deals with the initiation and investigation of dumping in the MoTI;
- a commission that would deal with the decision on material injury; and
- collaboration with customs to assess antidumping entries, to collect or rebate antidumping duty as directed by MoTI.

6. CONCLUSION

The absence of antidumping legislation might harm the domestic industry and the economy at large in many fronts. Hence, looking into the pros and cons of promulgating this law is highly important. The recent cries of the leather and textile sectors are a clue to what the policy direction should be. This article is just a brief presentation of the issue. More has to be worked out by the sectors concerned and by the authorities entrusted with international trade issues and policies. ■

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* ITC= International Trade Centre
 **ITC= International Trade Commission

HOW SUCCESSFUL THE AGRICULTURAL DEVELOPMENT LED INDUSTRIALISATION STRATEGY (ADLI) WILL BE BY LEAVING EXISTING LANDHOLDING SYSTEM INTACT?

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The main reason which prompted me to write this article is the interview that two EPRDF members had on the Ethiopian Television (ETV) with local journalists recently regarding the essence of Revolutionary Democracy as opposed to Liberal Democracy, and also their discussion on the issue of land.

First, I would like to start by saying that in the past, foreign donors were major actors of economic policy formulation. At present too, Ethiopia stands in the receiving end of economic policy ideas, because, unavoidably, aid has become conditional on the implementation of donor/creditor driven policies.

A series of debates and negotiations have been made with major donors and creditors of our time (the WB & IMF), which introduced a number of revisions in the EPRDF's line of economic policy thinking and economic program. Also, it should be said that because pressures are still underway in different forms, it seems inevitable that the very development strategy of EPRDF (i.e. ADLI) will be the next candidate for revision owing to, on the one hand, agriculture's continued disappointing performance to reduce Ethiopia's increasing dependence on food aid and, on the other, agriculture's failure as an engine of growth in the non-agricultural sector of the economy as stipulated in ADLI's document. We turn to this in sec-

tion one of this article.

Second, I believe that the question posed to EPRDF members by ETV journalists regarding the adverse impact that the granting of usufruct right on land exerts on the realisation of ADLI's strategy was not properly addressed. This is the second reason to write the article. The members discussed only about the hurdles that those interested to invest in the sector have been facing since the time the lease system has been operational, and the opportunities now opened up by Revolutionary Democracy to curb these problems; but they did say little about its impact on the peasantry—the driving force behind Ethiopia's agriculture—which constitutes more than 90 per cent of the agricultural output and over 95 per cent of the cultivated land. It is this group of the society which is mostly affected by reforms. There are a number of writings in this area, which emphasise the need to introduce a reform in the existing system of landholding if ADLI's target of raising per capita income by two folds is to be realised by the year 2015. And also if ADLI's strategy as a development strategy is to be salvaged from possible revision. We turn to this in the second part of this article.

1. THE PERFORMANCE OF ETHIOPIAN AGRICULTURE

In Ethiopia, like in many other developing countries, agriculture's

poor performance could be explained by factors such as its inability to feed the growing population, by the lack of structural transformation magnified by agriculture's continued dominance in Gross Domestic Product (GDP), and by the limited role that agriculture has played in serving as an engine of growth in economic development.

Structural Transformation: Agriculture constitutes the lion's share in GDP. Its average share was 68 per cent of GDP in the imperial era. The share declined to 55 per cent in the socialist era and presently it stands at about 50 per cent of GDP (Table 1). Agriculture's continued dominance is also implied by its strong correlation with GDP. The share of the service sector¹ is increasing. It was 25 per cent in the imperial era and now it stands at about 39 per cent. The contribution of the manufacturing sector has remained within the range of 9-11 per cent. The fact that agriculture has accounted for the lion's share in GDP for the past 40 years signified that the Ethiopian economy has not yet undergone

¹ The service sector consists of trade, transport and communications, banking, insurance, real estate, public administration, defense, education, health and other personal services. The important component in terms of value added in the service sector since 1992 has been the distributive service sub-sector. During the socialist era, however, the public administration and defense component was the most important component.

significant structural transformation and therefore that production constraints similar to those in the 60s are exerting similar influence on today's overall GDP growth.

Agriculture as an engine of growth: GDP growth rate was calculated for the three regimes to

measure the performance of the overall economy and also to evaluate agriculture's role in GDP changes. GDP declined by 1.82 percentage points in the socialist era compared to the imperial period and grew by 3.09 percentage points in the current period compared to its level in the socialist

period. Further, disaggregation of GDP into the different sectors reveals that decline in GDP growth rates in the socialist era was on aggregate caused by sharp declines in the service and manufacturing sectors.

Table 1. Average Growth Rates and Sectoral Shares

Year	AGRICULTURE		MANUFACTURING		SERVICES		GDP GR
	GR	SH	GR	SH	GR	SH	
1963-1974	0.9	68	7	5	7	25	3.5
1975-1991	1.3	55	1.2	6.5	2.6	34	1.7
1992-1998	2	50	7	6.4	8	39	4.8

Source: Author's calculation based on MEDaC data. GR stands for growth rate and SH for share.

GDP grew by 3.09 percentage points in the current period (1992-1998) compared to its growth rate in the socialist period (Table 1). This is attributed to increased performance in the manufacturing and service sectors than the agricultural sector. "Improved availability of inputs and spare parts to

the highly incapacitated manufacturing sector made possible by the intensive emergency recovery and rehabilitation effort and the accompanied economic reform program which helped rectify factor and product market distortion, are the major factors behind the profound growth registered in the

industrial sector" (MEDaC 1999). Growth in the agricultural sector, estimated at 0.62 percentage points in the same period, is the lowest compared to the 5.38 and 5.78 percentage points growth rates registered in the manufacturing and service sectors, respectively (Table 1).

Table 2. Comparison of Sectoral Growth Rates (1992 -1998)

Year	Agriculture	Manufacturing	Services	GDP
1992	6.064631	36.06622	17.40195	11.99951
1993	-3.65075	8.864426	8.098864	1.700187
1994	3.389273	8.954231	7.229856	5.375314
1995	14.67537	7.583344	6.956627	10.6198
1996	3.437318	5.879682	7.065382	5.167619
1997	-10.2886	5.799743	10.36199	-0.53637
1998	4.20667	4.944777	8.180074	6.301688

Source: Adapted from data of the Ministry of Economic Development and Co-operation (MEDaC). Numbers do not add up to 100 because of rounding off errors.

This implies that GDP growth has mostly been the outcome of performance in the non-agricultural sector. Growth in the agricultural sector has not been stable compared to the manufacturing and service sectors. It has been extremely vulnerable to climatic variations. In the major drought years i.e. 1973/74, 1983/1984, 1993/1994, and 1997/1998 agricultural production declined by 1.2, 17.4, and 10 per cent, respectively. Severe drought was also reported in the year 2000. Good rain years such as 1982, 1986, 1992, and 1995, on the other hand, respectively, brought a 13, 19.6 and 15

per cent growth in value added in agriculture. Most of the remaining years, which exhibited positive growth rates were years of recovery.

Growth in the service sector has been relatively stable and smooth for the last 30 years except in the years 1977, 1990, and 1991. On the contrary, fluctuation has been relatively common in the manufacturing sector. Part of the growth in this sector was a drive to normal level of output. For example, value added in this sector grew in the year 1963 to 1972, 1978 to 1987 and 1995 to 1998 and declined in

the years 1973 to 1977 and 1988 to 1994.

Poor performance in the agricultural sector can further be explained using food gap analysis method. The computation is made to evaluate the ability of the sector to guarantee food security to peoples residing in rural areas. What follows is a discussion of this.

Food availability in rural areas during the imperial period (before 1974), the Derge (1975-1991), and the current (1992-1998), without considering urban dwellers, is

computed below. It was 142 kilograms per person per annum in the imperial era. It declined to 113 and 106 kilograms respectively in the subsequent regimes. This is arrived at after a 2.5 per cent allowance for animal feed and an 11 per cent post harvest loss and a 6 per cent average requirement for seed are made (Table 3). Except

for the period prior to 1974, food availability has not been stable. It has been declining. This could be ascribed, among others, to the frequent occurrences of drought and to production increase not commensurate with population growth.

Comparison with recommended

food intake of 225 kilograms of cereals per person per annum (equivalent to recommended food intake of 2100 kcal per person per day) revealed that food deficit rose from its average level of 83 kilograms in the imperial era to 112 kilograms in the socialist era and presently it stands at 119 kilograms per person (Table 3).

Table 3: Food Gap in Rural Areas

Year	Rural Population	Cereal Production	Food Availability per person	Food Deficit per person per year
1961-1975	26	4.6	142	83
1975-1991	38	5.3	113	112
1992-1996	47	6.3	106	119

Source: Author's computation based on FAO data.

Reasons given for the poor performance of agriculture vary from period to period. Ill-conceived development strategies were common in the imperial and the socialist periods, civil strife, drought, and low productivity in all periods.

2. USUFRUCT RIGHT OVER LAND AS A CONSTRAINT IN THE GROWTH OF AGRICULTURE: AN OVERVIEW

The landholding system before 1974 was uneven. In the north, *rist* system was dominant. It is "a claim on community membership in any village from which one could prove descent, and hence on a share of the common agricultural land" (Pausewang 1990). But in the south, *gult* lordship was widespread. *Gult* lordship was introduced in the south as a result of Emperor Minelik's expansion southward. The *gult*² lords obtained land in the form of remuneration for their service as soldiers.

In the south, the king made *gult* rights hereditary but left right hereditary of *gult* holders in the north

unchanged; as result, *riste-gult* as a new system of holding emerged. Later, *riste-gult* rights evolved into a freehold system, as 'landownership appeared a precondition for investment in modern agriculture' (Pausewang 1990). North-South discrepancies in holding rights continued until holding rights were made uniform, following the turning of land into state hands, by the 1974 revolution.

Therefore, prior to the 1974 revolution, inequitable land tenure patterns, concentration of landownership in a small group³, tenure insecurity, and exorbitant rent or share cropping arrangements⁴ were major impediments in agrarian reconstruction development. Tenure insecurity was thought a cumulative effect of the following: absence of cadastral maps, unclear ownership and tenancy rights, unclear boundary demarcation, and undefined landlord-tenant relationships⁵. The traditional communal system of landownership, which prevailed in the northern part of the country, elimi-

nated the possibility of mortgage credit or of transactions in land. In addition, it obstructed farmers from investing in productive farming operations particularly from safeguarding against soil and water erosion (IEG 1962; IEG 1967).

A uniform landholding system was introduced by the March 1975 proclamation, which declared '*land to the tiller*'; consequently land was proclaimed a state property and all types of transactions on land were outlawed. Peasants were granted only usufruct rights. The proclamation in addition declared use of hired labour (except for those who were unable to plough due to age or incapacity), and sharecropping illegal.

Land distribution was carried out until all arable lands were distributed. The limited availability of arable land coupled with the growing demand for land required the introduction of land redistribution schemes. By the time land redistribution was started, cultivation had long encroached upon hillsides and marginal lands in most areas. Land redistribution at the kebele level during the Derg continued up until it was officially banned in 1989. The ban was meant to abate diminution in holding size. But so far, since 1989, land redistribution at the kebele level has been made twice. First, to settle war displaced citi-

² The *gult* lords are a nobility of political and military leaders who had rights to collect a share of the produce of all agricultural land in a given area, in exchange for their administrative, political, cultural and judicial service (Pausewang, 1990)

³ A progressive land tax was introduced in the third five year development plan to force these persons to put the land into use i.e. act as a negative incentive.

⁴ Those tenants who operated on share cropped land used to pay rent. Attempt was made in the Third Five Year Development Plan to replace it by a fixed rent system.

⁵ Tenants used to be arbitrarily evicted.

zens, and second, to curb problems related to land shortage in the Amhara region. Now inter-household land allocation has become the only source of access to land for the newly formed households.

Except for the buying and selling of land, most of the other constraints on land were relaxed by the March 1990 policy reform. The reform allowed sharecropping, the transfer of land to legal heirs, and the hiring of labour.

Nothing significant has been added to the land policy since the socialist government was deposed in 1991. Land is still in state hands and "the movement of land from one user to another is now possible either through short-term renting arrangements or through land redistribution" (Desalegn 1999).

Some of the avenues through which the existing land policy impacted agricultural production are: decrease in land size, insecure ownership, and discouragement of the mobility of the rural population. These are discussed in the following paragraphs.

Decrease in land size: Currently holding size is estimated at one hectare. According to data from the Central Statistical Authority (CSA), in the 1996/97 fiscal year the majority of the households accounting for 63 per cent held less than 1 hectare. Those holding in the range of 1.01 to 2.00 hectares were 24 per cent while 13 per cent of the households were reported to have held more than 2 hectares. Comparison with similar data in the early 80s revealed that average holding size is decreasing i.e. households with relatively larger holdings are decreasing while those with smaller holdings are increasing in number. This is primarily the result of intra and/or inter household allocation of land i.e. land redistribution.

Small land size is a major impediment for the application of pro-

duction technology. It is found that quantity of input use in Ethiopia is directly proportional to holding size (Wolday 1998; Mulat et al., 1998). In addition, small land size is the cause for the exclusion of many farmers from benefiting from high input package, extended by the Ministry of Agriculture and Sasakawa Global 2000. The package requires a peasant to own more than 0.25 hectares (ICRA 1997). High intensity of crop production in most parts of the country has become a strategy to cope with the small farm sizes.

Tenure Insecurity: Tenure insecurity has made peasants reluctant to apply sound land management practices and to make long-term investments on land (Teferi 1994; Teferi 1995; Sutcliffe 1995; Desalegn 1999). One source of insecurity is land redistribution. This has made many peasants cultivate high valued but less nitrogen-fixing crops in order to avoid the risk of losing plots in redistribution before earning the maximum possible (Teferi 1994).

Poor land management practices coupled with deforestation, which is attributed to population pressure in rural areas, has severely exposed cultivated land to land degradation. Estimates show that, cultivated land is experiencing a 2-3 per cent reduction in soil productivity due to soil and water loss, biological, and land degradation (Brune 1992; Ermias 1987). Soil loss is estimated at 1.5 million tones a year. This alone is estimated to have resulted in a 2 per cent decline in total output.

Mobility or rural population: It has arrested migration of people to urban areas and has created population pressure in rural areas, by denying access to land to those who are sustainably absent from rural areas (Befekadu and Berhanu 2000; Aklilu and Tadesse 1994; Desalegn 1999). According to Desalegn (1999), "the greater mobility of peasants out of agriculture will stimulate the greater mobility of

land. Land will be able to move "freely" from those who cannot use it efficiently to those who can."

Population pressure in rural areas is blamed for the expansion of cultivation to areas which were marginal and to areas previously covered by forests and woodlands. Forests, which covered 40 per cent of the land areas at the turn of the century, are presently reduced to less than 4 per cent (FAO 1997).

Average cultivated land as a per cent of agricultural area has risen from 21 per cent in the period 1961-1975 to 32 per cent since 1992 (Table 4). Permanent pasture, which accounted for 79 per cent of the total agricultural area between the years 1961-1975, is now reduced to 68 per cent (Table 4). Land classified as non-suitable for farming on the contrary is rising. It increased from its level of 57 per cent of the total land area between the years 1961-1975 to its present level of 69 per cent (Table 4). This suggests that land which used to serve as permanent pasture is increasingly being put under cultivation, and at the same time that significant amount of cultivated land is being withdrawn out of agriculture. Land degradation could be one of the primary causes for the latter.

Change in land size as a source of production increase: In a country like Ethiopia, where intensification of land use by way of increased use of chemical fertiliser is limited, change in land size constitutes the primary source of production increase. Ethiopian agriculture is dominated by small-scale⁶ farmers who are characterised by low input and low output rain-fed mixed farming with traditional technologies (MEDaC 1999).

This may be evidenced by figures of yield (used as proxy for techni-

⁶ Small-scale farmers on average account for 95 per cent of the total area under crop and for more than 90 per cent of the total agricultural output (MEDaC).

cal progress in agriculture) for major agricultural products, which have not improved for the past forty years. Except for roots and

tuber, yields for cereals, pulses, oilseeds, and vegetables have not registered significant improvements.

Table 4. Land Allocation

Year	Cultivated land as a % of Agricultural Area	Permanent Pasture as a % of Agriculture Area	Land non-suitable for cultivation as a % of total land area
1961 - 1974	21	79	57
1975 - 1991	23	77	56
Since 1992	32	68	69

Source: Author's computation based on FAO data.

Table 5. Average Yield of Major Crops

Year	Cereals	Pulses	Oilseeds	Vegetables	Roots and tuber
1961 - 1974	7.53	7.78	1.95	32.6	35.99
1975 - 1991	11.19	8.87	2.27	33.5	61.38
1992 - 1999	11.53	7.94	2.4	34.8	70.97

Source: Author's computation based on FAO data.

According to recent estimates, chemical fertiliser⁷ is used by less than 25 per cent of the farmers (MEDaC 1999) and less than 2 per cent of the country's cultivated area is covered with improved seeds (Befekadu and Berhanu 2000). Only 4.4 per cent of the potentially irrigable 3.7 million hectares of land is currently put under irrigation (FAO/WFP 1997; MEDaC 1999). In terms of the number of tractors in use also performance of the sector has been disappointing. According to calculations made using FAO's statistical database, average number of tractors in use was 1874 in the years 1961 to 1975. The number increased to 3865 in the years 1975 to 1991 and fell to 3121 in the years 1992 to 1998.

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GLOBALISATION

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**"Think global. Act local". Theodore Levitt
(Malcolm Waters 1996:1)**

1. INTRODUCTION

This paper is based on the presentation given at the Unity College seminar on Globalisation: A new concept or new phenomenon" to give theoretical and historical highlights.

The world today is in an exciting time for the study of international economic relations because of the dramatic changes brought about by the collapse of Eastern European and the former Soviet Union communism and the end of the "Cold War".

The world-wide movement toward deregulation (liberalisation) and privatisation of collectively owned properties; by breaking the link between government and enterprise, is an initiative that will lead to a significant opening up of formerly closed economies. "People all over the world have high hopes that new technologies will lead to healthier lives, greater social freedoms, increased knowledge and more productive livelihood. There is a great rush to be part of the network age-the combined result of the technological revolutions and globalisation that and integrating markets and linking people across all kinds of traditional boundaries."¹

Globalisation is defined as a social process in which the constraints of geography on social and cultural arrangements recede and in which people become increasingly aware that they are receding.²

Globalisation is a term that describes the transition of social-political, economic and cultural interconnectedness across the globe. "Globalisation describes the shrinking of the world-whereby the local becomes global and the global determines the local."³

McGrew describes globalisation as "the tremendous expansion of transitional corporate activity, the existence of global communications and media networks; the global production and dissemination of knowledge, combined with amongst other factors, the escalating significance of transitional religious and ethnic ties; the numerous flows of people across national

boundaries; and the emerging authority of institutions and communities above the nations state". McGrew further pointed out that globalisation consists of both scope of stretching and deepening or intensification. In other words, there is both a stretching across the globe of social, political and economic activities and an accompanying intensification of the effects of these social, political and economic decisions feel "truly global" (Cited in Smith 1995:149).

Socio-political, economical, cultural and technological changes play an important role in the process of globalisation. To describe these changes in terms of a process, apart from globalisation, we have the following terms. Internationalisation, post-modernisation, polarisation, (Multipolar) transnationalisation, shifts towards global interdependence, worldism etc. Moreover, in terms of changes that constitute a global structure of various levels of social development, there are such terms as:

The consumer society, the information society, post-industrial society, the risk society, the modern world system, the global illumine, global unicity, and the global village.

Structure of the World Economy that Enhances Globalisation:

- International division of labour
- International trade of goods and services
- International movement of financial capital and foreign direct and portfolio investments
- International migration of labour force
- International currency and financial credit relations.
- International transfer of technology and "know-how" etc.

All these structures and other international relations constitute the world economy. Therefore, world economy is the sum total of all economic, socio-political and cultural activities that were formed and will be formed among the countries of the world, based on international law, regulations, conventions and agreements through different international organisations like UNO, WTO, IMF, WB, ILO, EU, OAU etc.

One of the most important factors that enhanced the development of the world economy for the past 10 years is the openness of the national economy towards the economies of open type (market economy).

¹ Human Development Report (2001).

² Malcolm Waters (1996).

³ Smith (1995:149).

What are the factors that influence globalisation of the world economy?

Factors that influence Globalisation of the World Economy in Contemporary World are the following:

- a. The transition from industrial society to post-industrial society (information society)
- b. Technological revolution (the steps of scientific and technological revolution) i.e.

1. 1945 revolution related to automation automation society
2. 1974 revolution related to cybernetics cybernetic society
3. 2004 revolution related to Biochemistry optimisation of society
4. 2025 revolution related to psychology autonomous society
5. 2033 revolution related to Meta-psychology Psychology of natural (free) society.

Avdokushin E.F. International Economic Relations (Translated from Russian), Moscow, 1996, P.16.

- c. Chronic food and energetic source problems
- d. Environmental and ecological problems initiated the world society to make joint effort to overcome these situations.

According to Malcolm waters, globalisation of the

world economy involves the following processes.

1. The development of transnational practices.
2. The development of localised sites "global cities" that originate transnational practices
3. A decreasing efficiency of state policy instruments
4. An increasing number of inter-state relations.
5. The embryonic development of global bureaucracies
6. The emergency of new socio-spatial political entities.
7. An overall decline in the sovereignty of the state and etc.

Generally speaking, Globalisation increases the inclusiveness and the unification of human society, that involves a Janus – faced mix of trust and risk.

2. HISTORICAL DEVELOPMENT OF GLOBALISATION

The origin and continuing fundamental of economic globalisation is international trade. International trade can link together geographically, culturally, economically, etc. distinct producers and consumers, often establishing a relationship of identification as well as interdependence between nations.

The Relevant Long-run General Process that Supports Globalisation

Arena (trend)	16-19 th centuries	19 – 20 th centuries	21 st century
Economic Liberalisation	Capitalist world system. <i>Crisis of capitalism</i>	Multinational corporation	Lifestyle consumption
Policy democratisation	Bourgeois state	International relations. <i>Crisis of the state</i>	Destatisation and value politics
Culture universalisation	Divided subcultures	Integrated national relations	Global Idealisation

- Main path of globalisation
- Predominate patterns of causal efficiency

- Economies trend towards liberalisation, that is freedom from command, constraint and status and class monopolisation,
- Policies trend towards democratisation, the democratisation of power.
- Culture towards universalisation, the abstraction of values and standards to a very high level of cultural differentiation.

Source: Malcolm Waters, Globalisation, London, 1995.

Table 1. An Inventory of Economic Globalisation

Dimension	Ideal – typical pattern of globalisation	Current state of affairs
1. Trade	Absolute freedom of exchange between localities indeterminate flows of services and symbolic commodities	Minimum tariff barriers, substantial non-tariff and cultural barriers regional neo-mercantilism
2. Production	Balance of production activity in any locality determined only by physical/geographical advantages	International social division of labour being displaced by a technical division of labour. Substantial decentralisation of production dematerialization of commodities
3. Investment	Minimal FDI, displaced by production investment, trade and production alliances	TNCs being displaced by alliance arrangements but considerable FDI remains
4. Organisational Ideology	Flexible responsiveness to global market	Flexibility paradigm has become orthodox
5. Financial market	Decentralised, instantaneous and stateless	Globalisation largely accomplished
6. Labour market	Free movement of labour, no permanent identification with locality	Increasingly state regulated, considerable individual pressure for opportunities for "economic migration"

Source: Malcolm Waters (1996:94).

As a given sector of social life moves from a predominance of material through power and symbolic relationships, the tendency will be toward globalisation (pace Marx and Wallerstein).

From the table given above, in each of the dimensions of economic life it is possible to identify an approximate periodisation of modern society that corresponds with the theorem of pace Marx and Wallerstein.

Between about 1600 and 1870 we find the period of "capitalist economy", fading absolutist empires and emerging but weak national states; trans-geographical links established by entrepreneurial traders and merchants.

Between about 1870 and 1970 we find a "political economy", a system of international (or inter-organisational economic relations). The power of the state depends on the strength of its economy, on the capacity of its national enterprises to trade and invest and become multinational. States collaborate with multinational enterprises (MNEs) to enhance their economies in the international system by steering flows of labour, trade and investment.

The inhabitants of the world (planet) now appear to have entered a third phase, a phase of "cultural economy". Here symbolised markets move beyond the capacity of states to manage them and units of economic productions start to downscale to a more individual and harmonised scale. The economy becomes subordinate to individual taste and choice that it becomes reflexively marketised. The leading sectors in this process are those whose commodities are themselves symbols (invisible commodities), the mass

media, and entertainment industries and the post-industrialised services industries (Malcolm Waters 1996:95).

There are numerous factors that enhance the globalisation of the world economy related to the sphere of modern life. Some of the factors are enumerated as follows:

1. Economic Factors— the concentration and centralisation of huge capital, the rise of conglomerate companies, and financial groups, which have got the possibilities to go beyond the national boundaries and occupy vast spheres of economic activities.

Today extensive global trade patterns enmesh the world's population in ways that provide more goods and services in greater variety and quality than ever before in human history. Countries around the world count on one another for the functioning of their respective economies.

2. International Factors – the dynamics and progress of globalisation is related to the dates of huge international events. These are:

- a) The formation of the United Nations organisation and its motivating bodies like the International Monetary Fund, the World Bank, the United Nations Development Program and etc.
- b) The establishment of general agreement on tariffs and trade (GATT), the transformation of GATT into world trade organisation (WTO) to encourage the world trade of goods and services and tariff reduction etc.

Table 2. Three Abstract Models of International Relations

Types of Relations	International Anarchy	International Society	International Community
Authority	No central authority weak international law	Respect for international law	Excessive use of rules and norms
Actor(s)	State is dominant	Multiple actors, state is primary	Multiple actors, state declines
Orientation	Conflict	Co-operation/conflict	Co-operation/competition
Force	Coercion is common	Persuasion/some coercion	Persuasion for the common interest
Interaction	Minimal, mostly allies	Interdependence	Some political integration
Issues	National security	National security, global trade, global ecology, human rights	Justice in human welfare, specially redistribution of the earth's wealth
Problem solving level	Unilateral, occasional conference for adhoc issues	Multilateral problem solving in UN conferences	Super national institutions
Consensus	Strong sense of nationalism, focus on national interest	Multiple ideologies, but in decline; English grows as a world lingua franca	World is increasingly democratic and capitalistic; emerging world culture

Source: Conway W. Henderson: International Relations, Conflict Resolution and Co-operation at the Turn of the 21st century, N.Y, 1998, p. 4.

Table 3. Trade Negotiation Rounds of GATT-WTO

Year	Name of Round	No. of Participants
1947	Geneva	23
1949	Annecy	13
1950	Torquay	38
1956	Geneva	26
1960-1961	Dillon	26
1962-1967	Kennedy	62
1973-1979	Tokyo	99
1986-1993	Uruguay	125

Source: Joan E. Spero and Jeffrey A. Hart, The Politics of International Economic Relations, 5th ed., 1998. P.56. N.Y

The vitality of the multilateral and liberal trade regime will depend on the continuing development of effective forms of collective management. Central to a strong multilateral system is the effective implementation of the Uruguay Round Agreement and a strong World Trade Organisation (WTO). A multilateral commitment to making new features in the WTO, like the dispute settlement mechanism, and working successfully is key, as is the ability of the WTO to address new issues, like the relationship between trade and labour standards, trade and environment, and trade and competition policy. Major players must play by the rules if the multilateral system is to remain the cornerstone of the international trade regime.

c. The formation of regional and sub regional economic groupings and regional economic integration like the EU, NAFTA, ASEAN, MERCOSUR, ECOWAS, PTA (COMESA) UDEAC and others, that enhance trade relations among the regions.

3. Social Factors—decrease the role of traditional social relations, and culture, which increase movement of people in geographical context.

4. Technical Factors—the development of means of transport and communication facilitate the movement of people, goods and services, ideas and knowledge (know-how) from one region to another region (one country to the other countries).

5. Liberalisation and Deregulation of product and capital markets which encourage the internationalization of foreign economic activities (i.e., openness of the economy).

6. Political Factors—the weakening and removal of national boundaries among different countries through preferential trade areas and customs union; the unification of East and West Germany, North and South Yemen, the end of the "Cold war" and the elimination of ideological differences between east and west played major role in the process of globalisation in the past ten years.

Global movements in trade, investment, production and labour are now commonplaces. The communication of global cultural information is centrally involved here, and increasingly electronic equipment is used for data storage, visual recording and music reproduction. The manufacture and continuing development of such equipment depends upon globally integrated production arrangements, which now form a strategic part of the global economy.

"The globalisation of culture is not the same as its homogenisation, but globalisation involves the use of a variety of instruments of homogenisation (armaments, advertising techniques, language hegemonies, clothing style and the like), which are absorbed in to local political and cultural economies, only to be repatriated as heterogeneous dialogues of national sovereignty, free enterprise, fundamentalism, etc., in which the state plays an increasing and delicate role; too much openness to global flows and the nation-state is treated with revolt."⁴

The impact of globalisation on socio-politic, economic and culture is multi-dimensional. Therefore, globalisation must encourage transfer of technology and "know-how" from the industrialised countries to "weakly industrialised" countries. Global movements in trade, investment, production and labour are now

⁴ Tony Spy Bey: Globalisation and the World Society, Cambridge, UK, 1996 P.114.

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The impact of globalisation on socio-politic, economic and culture is multi-dimensional. Therefore, globalisation must encourage transfer of technology and "know-how" from the industrialised counties to "weakly industrialised" countries.

Table 4. An Inventory of Political Globalisation

Dimension	Ideal - typical pattern of globalisation	Current state of affairs
State sovereignty	Absence of sovereign states. Multiple centre of power at global, local and intermediate levels.	Crisis and attenuation of the state. Evidence of aggregation and decentralisation of state powers
Focus of problem solving activity	Local issues on the context of the global community	Increasing focus on local - global nexus but social community probably still paramount.
International organisation	Powerful, predominant over national organisation	Multiplying rapidly but relatively powerless.
International relation	Fluid and multicentric	Superpower system attenuating
Political culture	Common and planetary transcendence of etatocentric value commitments	Advance of liberal democracy/post materialism

Source: Malcolm waters (1996:123).

Table 5 Arguments For(Pro) and Against Globalisation

Arguments For(Pro) Globalisation	Arguments Against(Contra) Globalisation
<ol style="list-style-type: none"> 1. Globalisation increases efficiency of production. 2. Globalisation enhances rapid development of modern technology. 3. To increase competition among different countries that stimulates business activities. 4. To solve some global problems like: food problems, drought, terrorism, and etc., 5. To solve the problems of ecology and HIV/AIDS and etc., 6. To fight against poverty, environmental failure and social violence. 7. Economic Liberalism 	<ol style="list-style-type: none"> 1. Infant industry protection (preservation of the home market). 2. Political dependence and loss of sovereignty. 3. Unequal exchange of goods between industrialised and weakly industrialised countries. 4. Migration of resources from weakly industrialised countries to industrially advanced countries 5. Economic Protectionism 6. Nationalism 7. Neomercantilism

3. GLOBALISATION AND ITS IMPACT ON THE ETHIOPIAN ECONOMY

The integration of the Ethiopian economy to the world economy and world society is a difficult problem of contemporary Ethiopia. These difficulties

arise mostly from its under development. The reasons for under development of the Ethiopian economy and low level of participation in world economic activities are numerous, but some of the most important ones are mono-culture of its agricultural products; a low level of openness and lack of economic diversification. The main causes of these conditions are: -

1. The excessive dependence on agricultural products

both as a source of national income, employment and livelihood for its population and also as a main source of foreign exchange earnings with which Ethiopia can finance its basic imports of non-agricultural goods and services.

2. The dependence on foreign trade measured by its high ratio of foreign trade to gross national products in which imports exceed exports.

3. The existence of excessive export concentration in two or three agricultural commodities (for example, coffee, hides and skin, chat) which suffers adverse demand and supply conditions (price fluctuations) as well as prospects of decline in future due to international competition among the exporters of these commodities. This excessive dependence on agriculture and excessive export concentration in two or three commodities is discomforting also because her export

goods such as coffee, hides and skins etc. suffer from price fluctuations in the world market. These commodities also suffer climatic and other uncertainties. Moreover, these products offer limited scope for introduction of new and modern technology, skills and "know-how".

The patterns of comparative advantages between the industrially developed countries and weakly industrialised countries (WIC), in which the former specialise in industrial production and exports, and the later specialise in agricultural goods production and exports create unequal exchange and adverse terms of trade for the WICs.

Some of the remedies to solve the above mentioned socio-economic problems of Ethiopia are the following.

1. Encourage the mixed economy which increases the openness of the economy,
2. Formation and development of joint ventures, direct and portfolio investments which bring not only productivity but also "know-how" and new techniques and technologies.
3. Encourage and facilitate the business environment (through laws and regulations) providing political stability to increase the moral and material activities of all entrepreneurs (domestic and foreigners).
4. Formation of stable political environment with in the country and with neighbouring countries.
5. Encourage active foreign economic relations with countries of the world based on mutual understanding and co-operation.
6. Active participation in regional and sub-regional co-operation and regional economic integration, like IGAD and COMESA.
7. Stimulate economic development by means of diversification of production and exports through technical progress that creates a high degree of openness and export diversification.
8. Provide incentives and assistance for the establishment of small and medium-scale rural industries to serve the needs of the rural population for services, capital goods, agricultural inputs and agricultural processing.
9. Gradually shift priorities to expansion of urban industries that have strong backward and forward linkages to the rural agricultural and industrial sectors.
10. Improve local agricultural processing and marketing facilities, with an emphasis on independent, farmer-controlled co-operatives.
11. Limit the importation of food products that can be produced locally at a reasonable cost, with special care to protect local farmers from import products favoured by foreign subsidies.

CONCLUSION

The notion of co-operation and interdependence implies in particular that the progress of both industrially advanced and weakly industrialised countries is mutually coexistent and complementary. As soon as the industrially advanced countries fully realise this coexistence a world order based on mutual benefits and social justice for the whole of human beings will be achieved more easily. The weakly industrialised countries, like Ethiopia, are equally bound to develop and transform themselves according to a new pattern, as determined by its human, economic, political, and structural resources while the industrially advanced countries are still in a position to share the world economic trend for the betterment of all countries of the globe.

The current international economic relations are highly influenced by the formation of regional and sub-regional co-operation and economic integration, which enhance the globalisation of the world economy. Globalisation must consolidate and diversify the relations among different countries with different socio-economic problems, in the spirit of solidarity and mutual interest. Therefore, to succeed in the 21st century, Ethiopia has to become a full partner in the global economy, and only through this partnership it can find its own "niche" in the dynamic and globalising world. Ethiopia ought to design a better prospect for the coming generation which must be closer to the globalising and developed world.

Getting to the 21st century is intended to contribute toward strengthening the identity of self-awareness and find ones own place in the world economy, a voluntary action and the global agenda of today. There must be a feeling that, we are very much a part of the world. We must benefit from the fruits of growth and development provided by the industrialised countries and let them benefit from the lower costs of the weakly industrialised countries.

We believe that, this interdependence, mutual understanding and co-operation can bring the development and co-existence of the world economy for the benefit of its inhabitants.

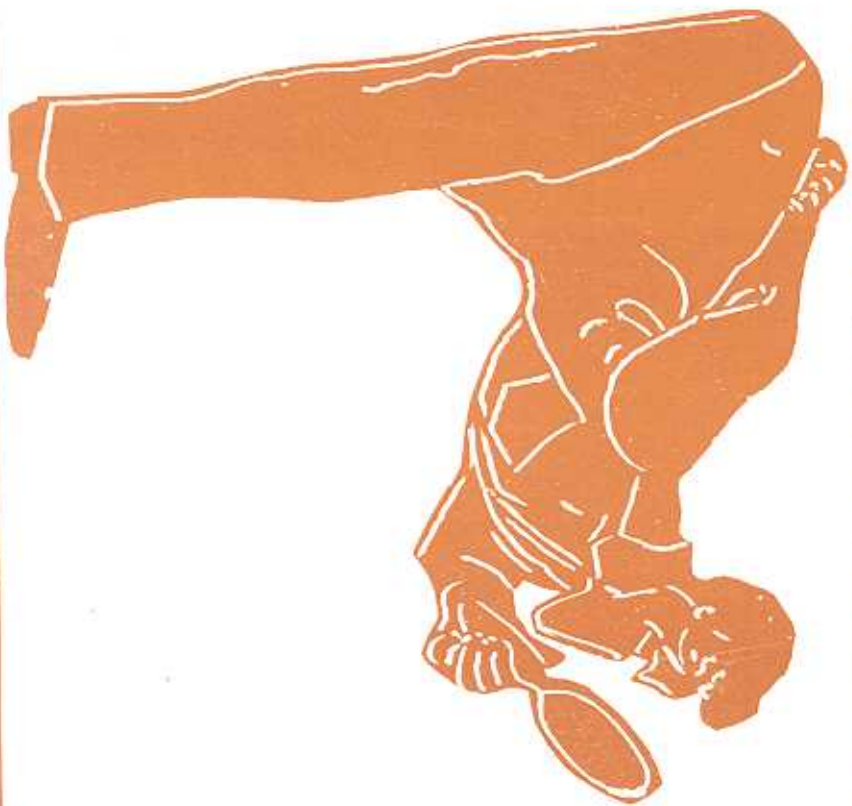
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