Chapter - Three

Economic Relations between India and Post-Socialist Ethiopia
CHAPTER- III

ECONOMIC RELATIONS BETWEEN INDIA AND POST SOCIALIST ETHIOPIA

3.1. Introduction

Ethiopia, despite enormous potential, has remained one of Africa's poorest countries in the world. Although Ethiopia's natural resources have supported the country's population over many centuries, rapid population growth in the later half of the 20th century, coupled with deterioration of environment and decades of warfare have inflicted severe damage on the rather weak economy and have burdened it with many millions of refugees and other displaced person. Ethiopian economy can be largely characterized as an agrarian economy and the Government has charted out an overall strategy, known as Agriculture Development - Led Industrialization (ADLI), which aims at the gradual transformation of the economy from Agriculture towards Industry and services through sustainable increase in Agricultural productivity. The strategy revolves around the productivity improvement of industrialization based on the utilization of domestic raw materials and labour intensive technology with an ultimate aim of boosting export. Based on this Strategy, Ethiopia has been undertaking a drastic structural adjustment program and the government have put in place bold political reform programs, Marco economic policies and sectoral strategies. At present peace and stability have prevailed throughout the country, which are the main basic prerequisites for business development. The political stability and the economic reform measures under taken so far have been bearing fruitful results. The economy has showed a marked improvement growing at annual average of about 8.5 percent per annum during the last three years. The Government in its continued effort to develop a competitive industrial sector has also recently launched an Industrial Development Strategy and clearly identified areas that deserve special attention and support by the government. (Dubey, A.K. 1987-88: 49-79)

3.2. Ethiopia's Economy: An overview

Agriculture accounts for more than half of GDP, more than 90 percent of foreign earnings and over 80 percent of employment. Coffee (Arabica) is the principle export crop, contributing around two – third of export value. Other cash crops grown are cotton and sugar while diversity of cereals constitutes the main food crops. With
farming largely the responsibility of peasants, using outdated methods, food production is well below domestic demand and much has to be imported. Ethiopia’s cattle population of around 30 million head is by far the largest in Africa. Sheep and goats predominate the lowland areas. Well over half the country’s total agricultural land is devoted to pasture, though much more could be cultivated. The total land available for cultivation is used as rangeland. (Mathews, K. & Sharma, V., 2001: 172)

Like Agriculture, Industry went through the major shakeup in the wake of the 1974 revolution. In January 1975 all Banks and other financial institutions were nationalized. A degree on economic policy was issued under which the state reserved to itself all control of what it called the basic industries. These included iron and steel, mining, cement, textiles, transport, hotels and tourism, among others. The private sector kept the import export trade and a wide range of small-scale industries such as spinning, weaving, baking, food processing and marketing. (Mathews, K. & Sharma, V., 2001: 172)

Mineral resources include appreciable amounts of natural gas (in the eastern region), gold, copper, and zinc, potash and iron-ore. Only small quantities of gold are mined at present, but there are good prospects for developing other exportable minerals. Due to many factors, particularly political, mineral resources have not yet been properly exploited. Rivers have great hydroelectric potential and the Rift Valley also offers a major source for geo-thermal energy. (Mathews, K. & Sharma, V., 2001: 172-173)

Manufacturing is concentrated in Addis Ababa and is largely concerned with processing foods, producing consumer goods and textiles for the home market and preparing hides for export. Handicrafts and leather production are also important. (Mathews, K. & Sharma, V., 2001: 173)

Ethiopia’s major problem remains the diversification of the economic base. The economy has been hampered by war, drought, famine and ethnic problems as well as by shortage of managerial staff and skilled workers. Between the revolution in 1974 and the late 1980s, economic policy was largely unfavourable to growth, state ownership of the means of production and distribution constraining agriculture development. The government’s emphasis on state farms, large-scale rural resettlement and collectivization schemes undermined agricultural production, while civil war in the province of Eritrea and Tigray reinforced economic stagnation.
Recurrent drought and environmental degradation caused further damage to the economy. (Mathews, K. & Sharma, V., 2001: 173)

Initial and reforms resulted in limited increases in productivity but in many areas these were undermined by insecure tenures and disincentives to production. Social indicators did improve, notably in health and literacy, though rarely to the levels claimed. Despite nationalization and state control of Banks, inbred fiscal and monetary conservatism helped check inflation. However, the nationalization of industry, centralized control and considerable investment in state farms and prestige industrial projects failed to produce sustained industrial growth. Poor agricultural production was further stunted by the famine of 1984-85. Modest economic recovery came with subsequent harvests and from 1988 there was also loosening of government controls. But this liberalization was too little and too late. Successive military defeats in the north from 1989 weakened the central government and further disrupted the highland economy. (Mathews, K. & Sharma, V., 2001: 173-174)

Economic reforms in 1991 have brought significant improvements in both the economic policy and performance, but they have so far failed to produce sustained economic growth and poverty reduction. Economic dislocation owing to war, culminating in the overthrow of the military government in 1991, saw the collapse of the tax collection and export earnings, while poor harvests further stunted growth in 1991-93. Upon taking power, the Ethiopian People's Revolutionary Democratic Front (EPRDF) rapidly jettisoned its dirigiste Marxist dogma and immediately embarked on market reform and structural adjustment. By 1998, despite problems, Ethiopia became one of the World Bank's favoured clients in sub-Saharan Africa. (Mathews, K. & Sharma, V., 2001: 174)

The government has implemented extensive economic reforms in four broad areas: the dismantling of direct controls and deregulation of both domestic and foreign trade; the overhaul of government taxation and expenditure, financial liberation, including the devaluation of the Birr and the fostering of private banking and insurance markets and privatization. Market reforms have produced largely positive results particularly in rural areas, with increased output, better prices and revenues for the peasants. The EPRDF has eschewed comprehensive planning, but it does have a loose, medium-term economic framework for federal and regional economic development. This agricultural development led industrialization strategy aims to promote medium scale industries based on agricultural processing in the larger
regional capitals. Despite deregulation and ability of regional governments to grant licenses for commercial farming, large scale commercial agriculture remains beset with problems of infrastructure, land tenure and licensing. Also, despite financial liberalization, banking and insurance remain dominated by the state. A similar situation prevails in terms of attempts to encourage foreign direct investment. Even so, the gradual pace of reform, and the secondary role accorded to foreign donors’ advice, has contributed to economic stability. (Mathews, K. & Sharma, V., 2001: 174)

In the area of external trade, external tariffs have been simplified and reduced extensively since 1992. However, at least 60 percent of Ethiopia’s export earnings depend on coffee, which are hostage to exceedingly volatile international prices. Falling coffee prices, coupled with significant planned increases of imports under successive adjustment programmes, meant that both Ethiopia’s overall trade position and terms of trade weakened in the mid-1990s. Ethiopian Birr has been devalued progressively since 1992, moving from US$ 1== 2.07 birr to US$1= almost 8 birr in April 1999. (Mathews, K. & Sharma, V., 2001: 174)

Acute perennial food shortage remains the most immediate economic problem confronting the majority of Ethiopians. Since 1991 the government, via its Disaster Prevention and Preparedness Commission (DPPC) and donors, has made significant improvements in the country’s famine early warning systems. An emergency food security reserve has been established and food relief storage and distribution networks have been improved. Nevertheless, most rural communities remain highly vulnerable, owing to acute poverty, vagaries of weather and pests. In the longer term, without significant improvements in agricultural productivity the Ethiopian economy will be unable to generate the agricultural surplus necessary acceleration of urbanization. Only through sustained improvements in rural productivity, through irrigation and increased fertilizer application etc. can living standards be improved. (Mathews, K. & Sharma, V., 2001: 175)

Another problem is Ethiopia’s dependence upon a single export crop, coffee. For almost four decades coffee has routinely accounted for two-thirds of Ethiopia’s foreign exchange earnings. Fluctuations in international coffee prices greatly accentuate the inherent instability of the Ethiopian economy. Attempts to diversify exports away from coffee have so far shown few results. Despite extensive liberalization many markets remained far from competitive. (Mathews, K. & Sharma, V., 2001: 175)
The recent war with Eritrea (1998-2000) has adversely affected the prospects of sustained growth and development. The reported cost of the war was said to be up to US$ 1 million per day. The cost of conflict had been met largely by deferring capital expenditure, implying severe cuts in sectoral investment programmes and sharp reduction in health and education expenditure. The war further eroded domestic and international confidence in the economy. (Mathews, K. & Sharma, V., 2001: 175)

During the period of the revolution it is remarkable that Ethiopia had any economy. The basic economy was agricultural. Upwards of eighty percent of the population is directly or indirectly dependent upon agriculture for their livelihood. Although an overwhelming proportion of the population is engaged in agriculture, agricultural production accounts for only about 50 percent of Gross Domestic Product (GDP). Most of the farming (two thirds to three quarters) is for the subsistence of the rural population and consists primarily of subsistence crops such as grains and pulses. The 1976-77 productions were: Teff, wheat and barley are cultivated in the high altitude areas and corn (maize), millet and sorghum in the lower altitude areas. Pulses are the primary source of protein in the diet of the rural Ethiopians. In addition to the crops shown above there were about 50 thousand tons of various oil seeds grown. Their consumption is important for the times when religious observances prohibit the consumption of animal fats. The false banana is another crop that provides substantial amounts of starches for the Ethiopian diet. The plant does not produce edible bananas but its roots provide large amounts of starch. A small portion of agricultural production is for export and almost all of this comes from the small commercial farms. The most important export crop is coffee. Coffee-growing probably originated in Ethiopia. Production levels in the 1970's were in the range of 150 to 200 thousand tons per year but only about one half was exported. Just as Ethiopian farming is at the mercy of the rainfall so the Ethiopian export economy is at the mercy of the international market price of coffee. Ethiopia also grows a substantial amount (100 thousand tons per year in the 1970's) of cotton and processes it into fabric for clothing. Sugarcane production on a commercial scale was developed by Dutch business interests after they lost production sites in the formation of Indonesia. Production rose to the level of 1.1 million tons per year before the revolution of 1974. The cane fields were nationalized after the revolution and the future of the sugarcane industry in Ethiopia has been in doubt since then. Ethiopia has the largest numbers of livestock of any country in Africa. There are large numbers of zebu cattle (26 million
in the late 1970's) which are used for draft animals in the highlands and provide milk and blood for the sustenance of lowland nomads: Very little Ethiopian cattle meat is marketed but hides are second only to coffee in value for exports. Sheep and goats are the primary source of meat in the rural areas. In 1976 there were 40 million of them, primarily in the highlands. At that time there were almost seven million horses, donkeys and mules. These were used primarily for transportation. Also there were one million camels which were also primarily used for transportation. Ethiopia has the potential for vastly increased agricultural production but at present a relatively small portion in the 1970's irrigated land constituted about 5 percent of total cultivated land and less than one percent of the total land area. While Ethiopia has approximately 8.8 million hectares (22 million acres) of land that is classified as forested most of this, 5.0 million hectares (12.5 million acres) is scrub woodland of the drier areas of the plateaus and margins of the deserts. Nevertheless the 3.0 million hectares (7.5 million acres) of broadleaf evergreen forest of the mid-altitudes and the 0.8 million hectares (2.0 million acres) of higher altitude evergreen coniferous forest are a substantial potential economic resource for Ethiopia. Before the revolution of 1974 about half of the forest land was in private ownership and the other half owned by the government. The potential for development is shown by the high productivity of the eucalyptus plantations that were established in the late nineteenth century in the vicinity of cities to provide raw material for poles, furniture, tools, and fiberboard and particle board. These uses are supplied from the relatively small acreage of about 150 thousand (50 thousand hectares). Ethiopia also has some historical interesting forest products such as gum Arabic, frankincense and myrrh. Gum Arabic is still a commercial product in world's markets. Frankincense and myrrh were in great demand in ancient times for incense in religious ceremonies and as medicines. The forests are also the source of fuel for much of the rural population, although cattle dung is an alternate source. Mining of precious metals in Ethiopia is now a relatively small industry, perhaps because the deposits were worked out over the century. Gold production is less than a ton per year and platinum an insignificant 15 pounds per year. The mining of rock salt in the Denakil Depression in the north coastal area is an important local mining operation. Production is on the order of 100,000 tons per year. There are some iron ore deposits which could be developed. The governments of Ethiopia over the years tried to get foreign companies to develop these ore deposits but the political instability of Ethiopia has interfered. The effect of the political turmoil of Ethiopia on the
functioning of the economy can be read in the statistics below on the value of exports in 1978 as compared with 1974. There were catastrophic declines in the value of exports for most commodities. Coffee production did increase substantially and, fortunately for the Ethiopian people, the price of coffee went up so much that it offset the collapse of the rest of the economy. While traveling on public transportation a fellow traveler noticed that the title of a book I was carrying was Ethiopia. He commented on it and I asked if he was Ethiopian. He said he was, but later conversation indicated that he was really Eritrean. After some conversation I asked him if he was aware of the religious movement in the Caribbean called the Rastifarians which considered the person of Haile Selassie as sacred. (Ras or Prince Tafari was the name of Selassie before he assumed the emperorship.) My fellow traveler said that he was well aware of the Rastifarians. He said one once engaged him in conversation when he learned that he was Ethiopian and then abruptly said, "Why did you kill God?" At that time there was a mystery as to where Haile Selassie's body was buried. Mengistu did not want Selassie's grave to become a site of veneration of the former emperor. My fellow traveler asserted that he believed that Mengistu had the body buried in his own house. As it happened this proved to be roughly true. In 1992 the body of Haile Selassie was found buried under a toilet in the imperial palace. (His remains were stored in a church before receiving a proper burial in Addis Ababa's Holy Trinity Cathedral in the year 2000.) Ethiopia's real GDP growth remained strong in 2007/08 at 11.6 percent; marginally up from 11.5 percent in 2006/07. This rapid growth was driven mainly by the agriculture and services sectors supported by strong growth of exports and sustained inflows of official development assistance and foreign direct investment. Growth is expected to slow down but remain strong in 2008/09, at 6.5 percent, owing to a good harvest and sustained high public investment in infrastructure. The expected slowdown in 2008/09 is due to the impact of the global recession on non-traditional exports and slower growth in domestic demand as a result of tighter fiscal and monetary policies. Despite strong growth overall in 2007/2008, drought, rising food prices and localised crop failures have exacerbated the food security crisis in Ethiopia. In addition to food security problems, the impact of the global economic crisis is expected to lower the demand for its exports and reduce remittances. Foreign direct investment and receipts from tourism are also expected to decline. The government faces the challenge of inflation – it has
surged to double digit levels – and difficulty in financing widening fiscal and current account deficits.

**Figure 3.1: Real GDP Growth and Per Capita GDP**

![Real GDP Growth and Per Capita GDP Chart](image)

Source: Statistical Report, 2009

**Figure 3.2 GDP Growth in Ethiopia**

![GDP Growth in Ethiopia Chart](image)

Source: Author with the help of Statistical Report Ethiopia
Agriculture remains the dominant sector of the economy accounting for 51.2 percent of GDP in 2007/08. It grew by 7.5 percent in real terms in 2007/08, down from 9.4 percent in 2006/07.

**Figure 3.3 Agriculture**

![Agriculture Chart]

Source: Author with the help of Statistical Report, 2008

In 2007/08, growth in crop production, which accounts for 68.3 percent of agriculture and related activities, was about 8 percent compared to 11 percent in 2006/07.

**Figure 3.4: Growth in Crop Production (2006-08)**

![Crop Production Chart]

Source: Author with the help of Statistical Report, 2008
Farming and animal husbandry also grew at 7.3 percent in 2007/08, down from 7.9 percent in the preceding fiscal year. The much smaller forestry and fishing sub-sectors also experienced buoyant growth. (Statistical Report: Ethiopia, 2008)

**Figure 3.5: Farming and Animal Husbandry (2006-08)**

Drought, rising food prices and crop failures have exacerbated the food security crisis in Ethiopia. Livelihoods were disrupted and the rate of malnutrition increased in a few parts of the country. There was a food security crisis in Afar, Amhara, Somali, parts of Oromiya and Southern Nations, Nationalities and Peoples (SNNP), and Tigray regions. An estimated 7.2 million people received food or cash assistance through the Productive Safety Net Programme (PSNP) of Ethiopia, which is funded by multiple donors. Humanitarian agencies continue to support Ethiopia in its struggle with the food crisis but the World Health Organization (WHO) recently warned that the response is inadequate. With the involvement of all sectors and agencies from November 2008 onwards, the government of Ethiopia planned a seasonal food security assessment in all regions to evaluate needs for 2009. The assessment, conducted in November and December 2008, estimates that 4.9 million people in different parts of the country will require emergency assistance in 2009. This is in addition to food assistance required for the targeted supplementary feeding of 1.2 million children under five and pregnant and lactating women. The Office for
the Co-ordination of Humanitarian Affairs (OCHA) also noted that the World Food Programme (WFP) requires an estimated USD 509 million to cover 2009 shortfalls for relief, targeted supplementary food, and its contribution to the PSNP1. (www.ethiopiaeconomy.com)

Non-agricultural output grew more than twice as fast as the agricultural sector in 2007/08. The industrial sector registered real growth of 10.4 percent in 2007/08, slightly up from 10.2 percent in the previous fiscal year. (www.ethiopiaeconomy.com) (Fig: 3.6)

Figure 3.6:

The expansion in the industrial sector was driven mainly by the growth in electricity and water supply as well as construction. Manufacturing grew by 7.1 percent in 2007/08, down from 8.3 percent in 2006/07. (www.ethiopiaeconomy.com) (Fig: 3.7)
The water and electricity sub-sector expanded at about 16 percent in 2007/08, up from 13.6 percent in the previous year. (www.ethiopiaeconomy.com) (Fig: 3.8)

Construction grew at 11.3 percent in 2007/08, up from 10.9 percent in 2006/07. (www.ethiopiaeconomy.com) (Fig: 3.9)
The services sector (38 percent of GDP in 2007/08), which has been the fastest growing since 2005/06, registered real growth of 17 percent in 2007/08, up from 14.3 percent in 2006/07. (www.ethiopiaeconomy.com) (Fig: 3.10)
It was mainly due to the rapid expansion in financial intermediation, public administration and defence, hotels and restaurants, and health and social services—each sector grew by more than 20 percent in 2007/08. Real estate, rental and business activities, education, wholesale and retail trade, and transport and communications recorded real growth rates of 17.3 percent, 16.4 percent, 14.4 percent and 13.9 percent in 2007/08, respectively. (Statistical Data: Ethiopia, 2008)

Domestic demand, mainly private consumption, has increased strongly since 2002/03. Private consumption—accounting for 88 percent of GDP in 2007/08—is driven mainly by food production. It grew in real terms by 13.3 percent in 2007/08 (up from 10.6 percent in 2006/07). Government consumption expanded in 2007/08 by 17.7 percent but private investment contracted by 15.6 percent. Public investment has been expanding for the last five fiscal years, with 20.4 percent growth in 2007/08 compared to 21.3 percent in the preceding fiscal year. Gross domestic investment contracted by 7 percent in real terms in 2007/08, down from 14 percent in 2006/07. Private investment is expected to contract further in 2008/09 while public investment is projected to expand at a slower pace than in 2007/08. Both private and public consumption are expected to grow further in 2008/09, with the rate of expansion in private consumption considerably lower than in 2007/08. Gross domestic savings fell sharply from 6.3 percent of GDP to a historical low of 3.2 percent in 2007/08, with an expected recovery to 4.4 percent in 2008/09. (Statistical Data: Ethiopia, 2008)

The overall fiscal deficit including grants fell to 3.1 percent of GDP in 2007/08 compared to 3.7 percent in 2006/07. With grants amounting to between 4 and 5.0 percent of GDP, donor support continues to be critical in keeping the budget deficit manageable. The slight improvement in the fiscal position has entailed an increase in domestic revenue mobilisation as well as a fall in public expenditure. Total revenue (including grants) as a proportion of GDP fell from as high as 21.4 percent of GDP in 2002/03 to 17.7 percent in 2006/07 and 17.2 percent in 2007/08. Tax revenue as a share of GDP increased in 2007/08 fiscal year, but was offset by a fall in grants. (Statistical Data: Ethiopia, 2008)

There has been a considerable shift in the composition of domestic revenue. The proportion of taxes in total revenue increased from 76 percent in 2001/02 to 80 percent in 2007/08. Within tax revenues, direct taxes declined from nearly 40 percent of total tax revenues in 2001/02 to about 30 percent in 2007/08; indirect taxes rose from 61 percent to 71 percent over the same period. Import duties accounted for 70
percent of indirect taxes and nearly 40 percent of the domestic revenue in 2007/08. Public expenditure increased by about 5.6 percent in real terms in 2007/08 although its share in GDP fell to 20.3 percent. The focus of government spending has shifted from current expenditure to capital expenditure since 2005/06. Poverty-targeted government spending (i.e., expenditure on education, health, agriculture and roads) has been more than 13 percent of GDP since 2004/05, up from only 6.1 percent in 2001/02 fiscal year, with poverty-targeted capital expenditure almost twice as large as poverty-targeted current expenditure in 2007/08. However, the budget execution rate for capital expenditures in 2007/08 was only 51.9 percent compared to 96.5 percent for recurrent expenditures. (Statistical Report, Ethiopia, 2008)

The dependence on external borrowing to finance the fiscal deficit has been falling. As high as 7.4 percent of GDP in 2001/02, it was 1 percent in 2007/08. Domestic borrowing, on the other hand, increased dramatically from only 0.5 percent of GDP in 2001/02 to nearly 4 percent in 2006/07 before falling back to just under 3 percent in 2007/08. The formation of a unified revenue agency, the Revenue and Customs Authority, in July 2008, together with on-going tax reforms are expected to boost domestic revenue in absolute terms and to keep its share of GDP stable at about 13 percent. Combined with a programme of expenditure restraint, this is expected to result in a decline in the fiscal deficit from 3.1 percent of GDP in 2007/08 to 1.8 percent and to 1.3 percent in 2009/10. (Statistical Report, Ethiopia, 2008) (Table: 3.1)

Table 3.1: Revenue, Grants and Expenditure in Ethiopia

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<tbody>
<tr>
<td><strong>Total revenue and grants</strong></td>
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<tr>
<td>Tax revenue</td>
<td>10.1</td>
<td>11.7</td>
<td>11.0</td>
<td>10.1</td>
<td>10.3</td>
<td>10.4</td>
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<tr>
<td>Grants</td>
<td>4.3</td>
<td>4.2</td>
<td>5.0</td>
<td>4.3</td>
<td>5.0</td>
<td>4.2</td>
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<td><strong>Total expenditure and net lending</strong></td>
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<tr>
<td>Current expenditure</td>
<td>21.3</td>
<td>12.5</td>
<td>11.8</td>
<td>10.0</td>
<td>9.7</td>
<td>9.2</td>
<td>9.0</td>
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<tr>
<td>Excluding interest</td>
<td>19.4</td>
<td>11.5</td>
<td>11.0</td>
<td>9.3</td>
<td>9.3</td>
<td>8.4</td>
<td>8.1</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>5.1</td>
<td>5.6</td>
<td>6.2</td>
<td>5.5</td>
<td>5.4</td>
<td>4.9</td>
<td>4.5</td>
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<tr>
<td>Interest</td>
<td>1.8</td>
<td>1.0</td>
<td>0.8</td>
<td>0.7</td>
<td>0.5</td>
<td>0.8</td>
<td>1.0</td>
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<tr>
<td>Capital expenditure</td>
<td>5.3</td>
<td>10.7</td>
<td>10.9</td>
<td>10.7</td>
<td>10.4</td>
<td>10.4</td>
<td>9.1</td>
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<tr>
<td><strong>Primary balance</strong></td>
<td>-7.4</td>
<td>-3.4</td>
<td>-3.1</td>
<td>-3.0</td>
<td>-2.6</td>
<td>-1.0</td>
<td>-0.3</td>
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<tr>
<td><strong>Overall balance</strong></td>
<td>-9.3</td>
<td>-4.4</td>
<td>-3.9</td>
<td>-3.7</td>
<td>-3.1</td>
<td>-1.8</td>
<td>-1.3</td>
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*Source: Ministry of Finance and Economic Development data, estimates (e) and projections (p) based on authors calculations.*
Monetary Policy

The National Bank of Ethiopia (NBE) is the central bank and is responsible for regulating all financial institutions. The monetary policy of NBE is geared towards achieving low inflation and maintaining a stable exchange rate. The growth rate of broad money increased from an average of around 11 percent during the period 2001-04 to almost 19 percent during the period 2004-07, after which it accelerated to 23 percent in 2007/08. In order to contain inflationary pressure, the National Bank of Ethiopia intends to restrain monetary growth to below 20 percent in 2008/09 and 2009/10 by raising liquidity and reserve requirements of commercial banks, and reducing credit to the government. The growth in broad money supply has been driven by the demand for domestic credit. Bank lending to private sector grew by nearly 27 percent in 2007/08, up from 15.4 percent in the preceding fiscal year. However, the growth in net lending to the government slowed from 9 percent in 2006/07 to 6.8 percent in 2007/08. (Statistical Report: Ethiopia, 2008)

Inflation has been running at double-digit figures since 2005/06 hitting 25 percent in 2007/08, up from 17.8 percent in 2006/2007 and 10.8 percent a year earlier. The dramatic rise in food prices was the major factor behind the unprecedented high inflation in Ethiopia in 2007/08; with food inflation and non-food (core) inflation at 34.9 percent and 12.5 percent, respectively. After spiking to 64.1 percent year on year in July 2008, headline inflation had fallen back somewhat to 55.4 percent year on year in October 2008. The decline is in tandem with the trend in food inflation – almost 92 percent year on year in July 2008 before declining to 72.3 percent year on year in October. Rising world commodity prices also contributed to high inflation in 2007/2008, particularly fuel. Other factors were an accommodating monetary policy, the increase in domestic demand as a result of improved economic performance, as well as the shift by donors from food donations to cash assistance. The rate of inflation is expected to decline considerably – to around 15 percent in 2008/09 – due to lower food prices since August 2008 and plunging international oil prices. The NBE maintained the minimum interest rate on savings deposits at 4 percent in 2007/08. By discouraging savings and encouraging borrowing, the negative real interest rate might have created upward pressure on domestic prices because it encouraged spending on goods to avoid the erosion of the value of savings. The increase in the international prices of fuel, fertiliser and construction materials created pressure on foreign exchange reserves which in turn
forced the nominal exchange rate to depreciate by 4.5 percent in 2007/08 with the premium on the parallel market for foreign exchange increasing from 1.9 in 2006/07 to 3.4 in 2007/08. As a result, international reserves fell from 3.8 months of imports by the end of 2003/04 to 2.2 months of imports by the end of 2006/07 and declined further to only 2 months of imports by the end of 2007/08. (Statistical Report: Ethiopia, 2008)

Ethiopia’s merchandise exports exhibited strong growth during the last five years, averaging 25.1 percent per year due to increases in both volumes and international prices of most export items. Coffee and non-coffee exports grew at about the same rate of 24 percent in 2007/08. But the heavy dependency on coffee has been gradually falling. Coffee’s share in export earnings fell from 39.6 percent in 2004/05 to 35.8 percent in 2007/08 because of relatively faster growth in earnings from non-coffee exports. Earnings from oilseeds, Ethiopia’s second largest export since 2004/05, grew by an average of 40.8 percent for the past five years. Higher demand from Asian countries, particularly China, pushed up prices. The share of export earnings from oilseeds jumped from only 7.2 percent in 2001/02 to 21.1 percent in 2005/06 before declining to nearly 15 percent in 2007/08. Foreign exchange earnings from exports of leather and leather products increased at an annual average rate of 12.1 percent between 2001 and 2008. Exports of pulses, another traditional export, grew on average by 53 percent per annum from 2003/04 to 2007/08. Meat and meat product exports continued to surge as well, exhibiting an annual average growth rate of 79 percent over the same period. Non-traditional exports such as flowers and gold have also witnessed substantial growth in the last three years. Flowers became the fourth largest export after coffee, oilseeds, and pulses in 2007/08, accounting for 7.6 percent in the total merchandise exports. The value of gold exports also grew at an average annual rate of 13.4 percent over the period 2005/06 – 2007/08 due purely to the increase in the international prices of gold since the volume of gold exports has been generally falling from 6200 tonnes in 2003/04 to 3800 tonnes in 2007/08. (Statistical Report: Ethiopia, 2008)

Ethiopian imports grew at an average annual rate of 30 percent during the past five fiscal years due mainly to the rising price of oil imports. Fuel imports overtook consumer goods to become the second largest import, next to capital goods, in 2007/08, accounting for 23.8 percent of total imports. The substantial growth in imports in 2007/08 was also due to rapid growth in imported raw materials and semi-
finished goods – they surged by 73.5 percent and 64.5 percent, respectively. Following a 5 percent contraction in total value in 2007/08, the share of capital goods in total imports dropped considerably from 36.5 percent in 2006/07 to 26.1 percent in 2007/08. The merchandise trade deficit was 21.3 percent of GDP in 2007/08, only slightly higher than in the previous year and is expected to decline gradually in 2009 and 2010 with easing of international oil prices. After registering growth of 7.8 percent in 2006/07, net services exports plunged in 2007/08 by 22 percent due mainly to a considerable increase in the imports of construction services. Thus, the current account deficit widened from 3 percent of GDP in 2006/07, to 4.7 percent in 2007/08. (Statistical Report: Ethiopia, 2008) (Table: 3.2)

Table 3.2: Current Accounts (percent of GDP at current price)

<table>
<thead>
<tr>
<th>Year</th>
<th>1999/2000</th>
<th>2004/05</th>
<th>2005/06</th>
<th>2006/07</th>
<th>2007/08</th>
<th>2008/09(e)</th>
<th>2009/10(p)</th>
</tr>
</thead>
<tbody>
<tr>
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<td>-22.7</td>
<td>-24.3</td>
<td>-20.2</td>
<td>-21.3</td>
<td>-19.8</td>
<td>-18.3</td>
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<tr>
<td>Exports of goods (f.o.b.)</td>
<td>6.1</td>
<td>6.9</td>
<td>6.6</td>
<td>6.1</td>
<td>5.8</td>
<td>5.3</td>
<td>5.6</td>
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<tr>
<td>Imports of goods (f.o.b.)</td>
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<td>29.6</td>
<td>31.0</td>
<td>26.3</td>
<td>27.1</td>
<td>25.1</td>
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<td>2.3</td>
<td>1.0</td>
<td>0.8</td>
<td>0.5</td>
<td>-0.3</td>
<td>-0.9</td>
</tr>
<tr>
<td>Factor income</td>
<td>-0.8</td>
<td>-2.9</td>
<td>-0.1</td>
<td>1.5</td>
<td>1.4</td>
<td>-0.1</td>
<td>-0.3</td>
</tr>
<tr>
<td>Current transfers</td>
<td>8.8</td>
<td>14.4</td>
<td>14.1</td>
<td>14.3</td>
<td>14.7</td>
<td>15.2</td>
<td>15.7</td>
</tr>
<tr>
<td>Current account balance</td>
<td>-4.2</td>
<td>-8.9</td>
<td>-9.2</td>
<td>-3.0</td>
<td>-4.7</td>
<td>-5.0</td>
<td>-3.7</td>
</tr>
</tbody>
</table>

Source: National Bank of Ethiopia data; estimates (e) and projections (p) based on authors' calculations.

The surplus on capital account declined from 4 percent of GDP in 2006/07, to 3.6 percent in 2007/08 although foreign direct investment increased from USD 482 million to USD 814.6 million over the same period. The deterioration in the current account balance and the decline in the capital account surplus resulted in a decline in international reserves of USD 263.3 million in 2007/08, compared to an increase of USD 85.2 million in 2006/07. As a result of debt relief – through the Highly Indebted Poor Country (HIPC) programme and Multilateral Debt Relief Initiative (MDRI) – Ethiopia’s external debt as a percent of GDP dropped to 11.8 percent in 2006/07 from 46.6 percent in 2005/06. However, it picked up slightly to 12.3 percent in 2007/08 as the effect of debt relief tapered off, from ETB 4.1 billion (Ethiopian birr) in 2006/07 to merely ETB 43.9 million in 2007/08. Similarly, debt service as a percent of exports of goods and non-factor services declined from 9.9 percent in 2005/06 to merely 1.2 percent in 2006/07, after which it picked up to 2.5 percent in 2007/08. Domestic
public debt also fell from 30.7 percent of GDP in 2005/06 to 21.6 percent in 2007/08. (www.ethiopianeconomy.com) (Fig: 3.11)

Figure 3.11: Stock of total External Debt (percent of GDP) and Debt Services (percent of exports of goods and services)

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3.3. Impact of Globalisation on Ethiopian Economy

Economic globalization can be evaluated with reference to at least three dimensions: trade, private capital flows, and migration. For each of these dimensions, pathways can be identified through which economic globalization can help or hurt poor people. For example, exports of labor-intensive goods have the potential of supporting the incomes of poor people, but imports of armaments can have disastrous impacts, especially for poor children. Capital inflows in the form of FDI can enhance employment and technological learning, but unwise bond finance and commercial bank lending can precipitate crises with devastating effects for poor people. (Zartman, I. William, 1966: 123)

Sorting out the positive and negative impacts of increased globalization from the point of view of poor people is therefore of great importance. This section will try to place these studies in the wider context of the globalization-and-poverty research agenda. The economic challenges facing Ethiopia tend to lead the observer to conclude that little can be done to positively affect Ethiopia's engagement with the global economic system. (Mathews, K. and Veena Sharma, 2001: 160-183)
The most common measure of poverty is income poverty, a deprivation of goods consumption due to a lack of necessary purchasing power. Measured in terms of purchasing power parity (PPP), gross national income (GNI) per capita in Ethiopia was just over US$700 in 2003 (up from approximately US$400 in 1985). In the parlance of the World Bank, individuals who exist on less than one dollar a day (1985 purchasing power parity dollars) are known as the extremely poor, while individuals who exist on less than two dollars a day (1985 purchasing power parity dollars) are known as the poor. In the case of Ethiopia, figures on the poor and extremely poor are available for only the year 2000. They indicate that approximately one quarter of Ethiopia’s population is extremely poor, but that over three quarters of the population is poor. There is a growing recognition that income poverty is not the only important measure of deprivation. With regard to health poverty, for example, infant and child mortality are key indicators. While Ethiopia shows some improvement relative to South Africa, it falls far behind the gains of Vietnam where infant and child mortality was cut in half in 13 years. Short of mortality, a number of morbidity issues are of central concern for Ethiopia. For example, Christiaensen and Alderman (2004) refer to the “the sheer magnitude of child malnutrition in Ethiopia”. In the case of stunting, for example, the rate is approximately 60 percent of all children, significantly above an average approximately 40 percent for sub-Saharan Africa. Bourguignon et al. (2004) also note that, while down from its 1990 level, the 2002 maternal mortality rate (per 100,000 live births) was still over 600. (Christiaensen and Alderman, 2004: 288)

Including gender disparities, is important both in its own right, as well as a factor contributing to health poverty. The work of Bigsten et al. (2003) suggests that primary education does play an important role in translating growth into poverty reduction in Ethiopia, albeit more for the urban poor than the rural poor. Primary enrollment ratio has been on a long-term, upward trend. More importantly, though, there has been a rapid increase in this enrollment ratio during the 1990s, with the 2002 ratio being just under 62 percent. That said, however, as noted by Bourguignon et al. (2004), Ethiopia’s primary completion rate is below the average for sub-Saharan Africa. Whether from the perspectives of income, health, or education, poverty levels are of grave concern for Ethiopia. The orthodox view of the multilateral development institutions is that more domestic liberalization, growth, and globalization can help address this concern. Dercon (2003) analyzes domestic liberalization and concludes
that it is poverty alleviating overall, despite the fact that poor people in remote areas and with poor household endowments do not necessarily benefit. With regard to growth, Bourguignon et al. (2004) note that: “While the linkage between income growth and income poverty reduction is quite tight, so that high growth leads to significant reductions in income poverty, improvements in the other human development measures are not readily achieved from growth alone”. (Seth, V. S., 1998: 101)

Of all aspects of globalization, it is international trade that is held out as the great hope for poverty alleviation. Trade can contribute to poverty alleviation by expanding markets, promoting competition, and raising productivity, each of which has the potential to increase the real incomes of poor people. But, as the recent histories of a number of countries demonstrate, it would be a mistake to rely on trade liberalization alone as a means of reducing poverty. A more comprehensive approach is needed that addresses multiple economic and social challenges simultaneously and that emphasizes the expansion of poor people’s capabilities, especially in the areas of health and education. Nevertheless, trade has some vital roles to play. International trade is a means of expanding markets, and market expansion can help to generate employment and incomes for poor people. Comparisons are often made between the wages of workers in poor-country export industries and the wages of workers in developed countries. In these comparisons, the wages of workers in developing-country export industries often appear to be very low. Consequently, trade has often been identified as poverty worsening. However, the more relevant comparison is between what people may have earned before and after trade opportunities were made available. From a poverty perspective, this could be between the wages of export sector Workers with agricultural day laborers, both in the same developing country. It must be kept in mind that not all export activity is equal from the point of view of raising the income of poor people. Exporting can best contribute to poverty alleviation when it supports labor-intensive production, human capital accumulation (both education and health), and technological learning. In addition, the incomes of poor individuals depend on buoyant and sustainable export incomes, which in turn are dependent on export prices. International trade is also a means of promoting competition, and in many instances, this can help poor people. Increased competition lowers the real costs of both consumption and production. For example, domestic monopolies charge monopoly prices that can be significantly above competitive
prices. The competition introduced by imports erodes market power, lowering prices. These pro-competitive effects of trade can make tight household budgets go farther and lower costs of production. The latter can have knock-on employment effects advantageous to poor individuals by lowering non-wage costs in labor-intensive production activities. Pro-competitive effects can also arise in the case of monophony power. (Legum, Colin, 1986: 59)

There is some evidence that international trade can promote productivity in a country, and it is possible that productivity increases can in turn support the incomes of poor people. It is not the case that exports of all types or in all countries generate positive productivity effects, but there is evidence that this is the case in certain instances. Export postures can place the exporting firms in direct contact with discerning international customers, facilitating upgrading processes. There is no consensus within international economics on the extent of these upgrading effects, but they nonetheless remain an important possibility including in natural resource intensive sectors. There are occasions where international trade can have direct health and safety impacts on poor individuals, impacts that can be beneficial or detrimental. Perhaps most importantly, improving the health outcomes of poor people usually involves imports of medical products. It is simply not possible for a small, developing country like Ethiopia to produce the entire range of even some of the more basic medical supplies, no less more advanced medical equipment and pharmaceuticals. However, many developing counties import large amounts of weaponry and export sexual services, both of which can have dramatically negative outcomes for the health and safety of poor individuals. In addition, the production processes of some export industries can adversely affect the health of workers in those industries, and a small but important amount of trade involves hazardous waste dumping. Ethiopia has increased its involvement in international trade, although less rapidly than other countries. (Moseley, K. P., 1992: 33)

In comparison with South Africa, however, Ethiopia has slowly achieved parity in this measure of trade openness. First is the secular, downward trend in commodity prices. Second is the escalating protection in primary commodity markets in developed countries. Third is the monopolistic pricing along commodity chains practiced by major coffee multinationals. This Dependence problem was apparent as coffee export revenues fell by over US$100 million between 1999 and 2001 as coffee prices fell to a 30-year low. As noted by Oxfam (2002b), this decline in export
revenues more than offset the debt relief Ethiopia obtained from the Highly Indebted Poor Country (HIPC) initiative, and many Ethiopian coffee farmers have been forced to shift to the production of chat, a stimulant used in the region around the Red Sea. Such descriptions exclude services trade, which is significant for Ethiopia. This has been on a steady, if somewhat volatile, upward trend, reaching nearly half of total exports in 2002. As any passenger on Ethiopian Airlines will appreciate, the bulk of this service exports is accounted for by transportation services. Despite the pressing human development needs of the poorest countries such as Ethiopia, arms imports have at times composed a significant part of its total imports and government military expenditures a significant part of total government expenditures. For the years in which data are available, this ranged from just over 20 percent to nearly 55 percent. This peaked in 1998 at approximately US$200 million but has composed up to one fifth of total imports at times. Such trade cannot be conceived of as poverty alleviating. Indeed, in the case of Ethiopia (and Eritrea), it has been nothing less than a catastrophe, and it is difficult to conceive of a more perverse role for trade than in facilitating the death and injury of the very people it should be benefiting. (Ramchandani, R. R., 1997: 77-122)

Private capital flows are an important resource for developing countries. Capital flows augment domestic savings and can contribute to investment, growth, financial sector development, technology transfer, and poverty reduction. However, there is also substantial evidence that capital flows entail potential costs that are both much larger than in the case of trade and disproportionately carried by the poor. Additionally, it has become clear that not all capital flows are the same in their benefit and cost characteristics. For these reasons, a careful assessment of the impact of capital flows on poverty does not lend itself to across-the-board statements. Rather, the cost and benefit characteristics of distinct types of capital flows must be considered in some detail. Here we distinguish among foreign direct investment, equity portfolio investment, bond finance, and commercial bank lending. The financial markets involved in equity portfolio investment, bond finance, and commercial bank lending are characterized by a number of market failures. In normal circumstances, these imperfections tend to contribute to a certain amount of market volatility. Under certain circumstances that are not fully understood (but are particularly important in emerging economies such as Ethiopia), they can lead to full-blown financial crises. Imperfections in financial markets appear to be particularly
problematic when commercial banks in developing countries are given access to short-term, foreign lending sources. The resulting problems have three causes. First, systems of financial intermediation in developing countries tend to rely heavily on the banking sector, other types of financial intermediation typically being underdeveloped. Second, developing countries have been encouraged to liberalize domestic financial markets, sometimes before systems of prudential bank regulation and management are put in place. Third, developing countries have sometimes prematurely liberalized their capital accounts. Consequently, care must be taken in managing evolving financial systems and their access to international capital flows. (Moseley, K. P., 1992: 53)

Foreign direct investment can have positive impacts on poverty by creating employment, improving technology and human capital, and promoting competition. Not all kinds of FDI contribute in this way, however, and some can adversely impact certain dimensions of poverty through unsafe working conditions and environmental degradation. Nevertheless, if we were to identify the most promising category of capital flows from the point of view of poverty alleviation, FDI would be it. Many developing countries lack access to the technologies available in developed countries, and hosting MNEs from developed countries is one way to potentially gain access to that technology. There are limits to technology transfer, however. First, MNEs will employ the technology that most suits their strategic needs and not the development needs of host countries. For example, MNEs can employ processes that are much more capital intensive than would be desired on the basis of host-country employment considerations. Second, there is a strong tendency for MNEs to conduct their research and development in their home bases rather than in host countries. Despite these general limitations, in some important cases, MNEs do transfer technology and establish significant relationships with host-country suppliers via backward linkages. If foreign MNE begins to source inputs locally rather than by importing them, the host country can gain a number of important benefits. First, employment can increase since the sourced inputs represent new production. Second, production technologies can be better adapted to local conditions since suppliers are more likely to employ labor-intensive processes. Third, the MNE can transfer state-of-the-art business practices and technologies to the local suppliers. Fourth, it is possible that the local suppliers can coalesce into a spatial cluster that supports innovation and upgrading. Another avenue through which MNEs can positively affect host economies is through
“spillovers” to other sectors of these economies. The evidence to date suggests that such spillovers do occur in some circumstances and can be significant. However, in the words of Blomström and Sjöholm (1999), they are not “guaranteed, automatic, or free.” Many factors are involved, and these include host country policies, MNE behavior, and industry characteristics. One key factor is the capacity of local firms to absorb foreign technologies. Blomström and Kokko (2003) suggest that learning is a key capacity that is responsive to various host country policies, and evidence presented in Tsang, Nguyen, and Erramilli (2004) in the case of Vietnam support this view. There is some evidence that MNEs in Africa offer higher wages than domestic firms. This effect is more predominant for skilled than unskilled workers. FDI can therefore have differential impacts that exclude unskilled workers. All of these considerations point to the role of basic education and skills development in making the most of FDI for poverty alleviation. The low-income countries as a whole are largely excluded from global FDI flows. For example, in 2002, low-income countries received only two percent of total FDI flows, with nearly half of this going to India and Vietnam alone. This poses a serious challenge to the country. As we discuss below, the country might be able to make better use of its Diaspora to stimulate inflows of FDI, since these individuals will be better able to overcome information gaps regarding the investment climate in the country. A regional approach to FDI under the Common Market for Eastern and Southern Africa (COMESA) is another possibility. (World Bank, 1999)

There is evidence that capital inflows in the form of equity portfolio investment might be more beneficial than both bond finance and commercial bank lending. For example, Reisen and Soto (2001) have examined the impact of all four capital inflows considered here on growth for a sample of 44 countries. They found that FDI, considered above, did indeed have a positive impact on economic growth. The most positive growth impact, however, came from equity portfolio flows. Bond finance, did not have any impact on growth, and commercial bank lending, had a negative impact. These results suggest that equity inflows, along with FDI, could play an especially positive role in growth, development, and poverty alleviation. Rousseau and Wachtel, 2000, summarizes research on a positive role in growth and development by equity portfolio investment which has four possibilities: equity portfolio inflows are an important source of funds for developing countries; the development of equity markets helps to provide an exit mechanism for venture
capitalists, and this increases entrepreneurial activity; portfolio inflows assist
developing countries to move from short term finance to longer-term finance and help
to finance investment in projects that have economies of scale; the development of
equity markets provides an informational mechanism evaluating the performance of
domestic firms and can help provide incentives to managers to perform well. With
regard to volatility, there is some evidence that institutional investors managing equity
flows are less likely than banks to engage in herd and contagion behavior. However,
in general, equity markets are underdeveloped in much of the developing world. For
example, nearly the entire net portfolio equity inflows into Sub-Saharan Africa are
accounted for by one country alone: South Africa. (Claude, A., 1984: 50-59)

The World Bank (2004) summarized the features of developing-country equity
markets as follows: Market capitalization as a share of GDP in low-income countries
is about one-sixth of that in high-income countries stock exchanges in developing
countries also tend to lag technologically behind developed markets. Technology
plays a major role in the trading, clearance, and settlement processes; problems in
those areas can discourage sophisticated investors. Institutions that supervise and
support the operation of the stock exchange also tend to be weaker in developing
countries. The development of equity markets in low- and middle-income countries is
more complex than it might first appear, however. This is due to the increased
globalization of financial services. Observers have pointed to a set of domestic factors
as being particularly important in equity market development. These factors include
sound macroeconomic policies, minimal degrees of technology, legal systems that
protect shareholders, and open financial markets. However, as pointed out by
Claessens, Klingebiel, and Schmukler (2002), these are precisely the factors that tend
to promote the "migration" of equity exchange out of developing countries to the
major exchanges in capital of developed countries. This migration process
complicates standard notions of equity market development. Steil (2002) has argued
that the way forward is to link local markets with global markets. However, there
might remain medium-sized firms with local information needs that could benefit
from some kind of domestic equity market. This is an area that requires urgent
attention for the development of novel approaches. At present, inflows of equity
investment into Ethiopia are essentially non-existent. As in the case of FDI, then, this
represents a significant challenge to Ethiopian policymakers. (Bahru, Z., 2001: 78)
In the minds of the financial world, there are significant differences between portfolio equity investment and debt. This shows up in the fact that, in the case of bankruptcy, debt is given priority over equity. This tends to support the preference for debt over equity in markets, a preference that appears to be misplaced from a development and poverty alleviation perspective. At present, inflows of bond finance into Ethiopia are non-existent. From a poverty perspective, this is not a cause of great concern at present. Greater benefits would be attained from increases in FDI and equity portfolio inflows. With regard to commercial bank lending, Dobson and Hufbauer (2001) note that “Bank lending may be more prone to run than portfolio capital, because banks themselves are highly leveraged, and they are relying on the borrower’s balance sheet to ensure repayment”. The World Bank (2001) notes that “Incentives are key to limiting undue risk-taking and fraudulent behavior in the management and supervision of financial intermediaries—especially banks that are prone to costly failure”. What can be done to support the safe development of banking sectors in low income countries such as Ethiopia? Some of the necessary steps can be thought of in terms of information, institutions, and incentives. With regard to information, it is important for banks to embrace internationally-sanctioned accounting and auditing procedures and to make the results of these assessments available to the public. In the case of institutions or the rules of the “banking game,” risk management practices (both credit and currency) must be sufficiently stringent, and prudential regulation systems must be well developed. With regard to currency risk, the World Bank (2004) notes that “particular care should be taken to ensure that foreign-currency liabilities are appropriately hedged”. These information and institutional safeguards are no small task and inevitably cannot be achieved in the short term. Consequently, they should be buttressed with incentive measures in the form of market-friendly taxes on banking capital inflows. To summarize, debt flows in the form of bond finance and commercial bank lending appear to have different properties than equity flows in the form of FDI and portfolio equity investment. They are more prone to the imperfect behaviors that characterize financial markets and do not appear to have positive growth effects as large as those associated with equity flows. Consequently, utilization of debt finance must be cautious and sufficiently hedged against exchange rate risks. (Bahru, Zewde, 2001: 62)
3.4. India's economy: An overview

The seventh largest and second most populous country in the world, India has long been considered a country of unrealised potential. A new spirit of economic freedom is now stirring in the country, bringing sweeping changes in its wake. A series of ambitious economic reforms aimed at deregulating the country and stimulating foreign investment has moved India firmly into the front ranks of the rapidly growing Asia Pacific region and unleashed the latent strengths of a complex and rapidly changing nation. India's process of economic reform is firmly rooted in a political consensus that spans her diverse political parties. India's democracy is a known and stable factor, which has taken deep roots over nearly half a century. Importantly, India has no fundamental conflict between its political and economic systems. Its political institutions have fostered an open society with strong collective and individual rights and an environment supportive of free economic enterprise. India's time tested institutions offer foreign investors a transparent environment that guarantees the security of their long term investments. These include a free and vibrant press, a judiciary which can and does overrule the government, a sophisticated legal and accounting system and a user friendly intellectual infrastructure. India's dynamic and highly competitive private sector has long been the backbone of its economic activity. It accounts for over 75 percent of its Gross Domestic Product and offers considerable scope for joint ventures and collaborations. (www.economywatch.com)

Today, India is one of the most exciting emerging markets in the world. Skilled managerial and technical manpower that match the best available in the world and a middle class whose size exceeds the population of the USA or the European Union, provide India with a distinct cutting edge in global competition.

It has 16 percent of the world's population and 12 percent of the world's arable land. It also is the sixth largest economy with respect to Gross Domestic Product (GDP). The reforms undertaken since July 1991 have led to a strong revival of economic growth, rapid increase in employment, reduction in poverty, a boom in exports and a decline in inflation. Growth of real GDP at factor cost, which had fallen to merely 0.8 percent in the crises year 1991-92, recovered within a year to reach 5.1 percent in 1992-93. This represents one of the fastest economic recoveries from macroeconomic crises by international standards. Thus, despite the situation in 1991-92, the average growth of 5.7 percent over the first four years of the Eighth Plan was higher than the Plan target of 5.6 percent. Reforms of the external sector and the
consequent achievements on the balance of payments front have played a key role in the turnaround in the growth of GDP, employment and social indicators. 

(www.economywatch.com)

The country witnessed a strong, three-year boom with annual export growth averaging 19 percent in 1993-94 and 1994-95 and then accelerating to 24 percent in the first nine months of 1995-96. Growth of foreign direct investment has averaged 100 percent per annum over 1992-93 to 1994-95. The same level was maintained over the first eight months of 1995-96. The country's external debt situation has improved markedly in the past few years. The growth of external debt between March 31, 1991 and September 30, 1995 averaged US$ 2.2 billion per year, compared to the much higher average annual increase of US$ 4.9 billion a year, between end-March 1986 to end-March 1991. However, the task of economic reforms is far from over. The strong economic performance of recent years will require continuing effort to widen the ambit of economic reform, and difficult decisions will have to be taken to deal with the emerging challenges within India and worldwide. (library.thinkquest.org)
Table 3.3: India's ranking in the world

<table>
<thead>
<tr>
<th>Sector</th>
<th>Unit</th>
<th>India</th>
<th>World</th>
<th>India's Rank</th>
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<tr>
<td>Population</td>
<td>Million</td>
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<td>5502</td>
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<tr>
<td>Total GDP</td>
<td>Bn. US $</td>
<td>225</td>
<td>23113</td>
<td>18</td>
</tr>
<tr>
<td>Exports</td>
<td>Bn. US $</td>
<td>21.6</td>
<td>3686</td>
<td>33</td>
</tr>
<tr>
<td>Electricity generated</td>
<td>Bn.kwh.</td>
<td>301</td>
<td>12028</td>
<td>8</td>
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<tr>
<td><strong>Production Indicators</strong></td>
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<tr>
<td>Tea production</td>
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<td>2.6</td>
<td>1</td>
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<tr>
<td>Groundnuts (shell)</td>
<td>Mn. Tons</td>
<td>7.4</td>
<td>25</td>
<td>1</td>
</tr>
<tr>
<td>Raw sugar</td>
<td>Mn. Tons</td>
<td>14.4</td>
<td>115.7</td>
<td>1</td>
</tr>
<tr>
<td>Millet</td>
<td>Mn. Tons</td>
<td>10.6</td>
<td>29</td>
<td>1</td>
</tr>
<tr>
<td>Rice (Paddy)</td>
<td>Mn. Tons</td>
<td>111</td>
<td>527</td>
<td>2</td>
</tr>
<tr>
<td>Rapeseed</td>
<td>Mn. Tons</td>
<td>3.7</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Sugarcane</td>
<td>Mn. Tons</td>
<td>249</td>
<td>1103</td>
<td>2</td>
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<tr>
<td>Coal (hard)</td>
<td>Mn. Tons</td>
<td>250</td>
<td>3138</td>
<td>3</td>
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<td>Cement</td>
<td>Mn. Tons</td>
<td>50</td>
<td>1148</td>
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<td>Wheat</td>
<td>Mn. Tons</td>
<td>57</td>
<td>565</td>
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<td>Cotton (lint)</td>
<td>Mn. Tons</td>
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<td>17.7</td>
<td>4</td>
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<td><strong>Agriculture and Allied</strong></td>
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<td></td>
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<tr>
<td>Arable land</td>
<td>Mn.Hectares</td>
<td>170</td>
<td>1444</td>
<td>2</td>
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<tr>
<td>Irrigated Area</td>
<td>Mn.Hectares</td>
<td>45.8</td>
<td>249.6</td>
<td>2</td>
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<tr>
<td>Cattle population</td>
<td>Mn.</td>
<td>193</td>
<td>-</td>
<td>1</td>
</tr>
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<td>Milk (cow and buffalo)</td>
<td>Mn.Tons</td>
<td>60.9</td>
<td>501.6</td>
<td>2</td>
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<tr>
<td>Eggs (hen)</td>
<td>Mn.Tons</td>
<td>1.5</td>
<td>37.9</td>
<td>5</td>
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</table>

India's economy over the last decade looks in many ways like a success story; after a major economic crisis in 1991, followed by bold reform measures, the economy has experienced rapid economic growth rate, more foreign investment, and a boom in the information technology sector. Yet many in the country still suffer from crushing poverty, and social and political unrest remains a problem. These essays by leading academics, policymakers, and industrialists, including one by Amartya Sen, the 1998 winner of the Nobel Prize in Economics for his work on poverty and inequality, examine the facts of India's recent economic successes and their social and cultural context. India's rate of economic growth after the 1991 reforms were instituted reached a remarkable 7 percent for three consecutive years, from 1994 to 1997. Several contributors to India's Emerging Economy ask what this means for the nation as a whole. In this essay "Democracy and Secularism in India," Amartya Sen argues that economic progress is not the only way to measure a nation's performance. Other essays examine the actual effects of India's economic growth has had on reducing poverty.

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which were mainly operating at domestic/cottage level. The thesis provides a summary of the growth history of the sector covering role of R&D, recent trends vis-à-vis crop-wise status of agro processing industrialisation and problems, export trends, SWOT analysis and thrust areas for future for achieving greater role of this sector in the national economy. (library.thinkquest.org)

3.5. Liberalisation Policy of India
The Government of India started the economic liberalization policy in 1991. Even though the power at the center has changed hands, the pace of the reforms has never slackened till date. Before 1991, changes within the industrial sector in the country were modest to say the least. The sector accounted for just one-fifth of the total economic activity within the country. The sectoral structure of the industry has changed, albeit gradually. Most of the industrial sector was dominated by a select band of family-based conglomerates that had been dominant historically. Post 1991, a major restructuring has taken place with the emergence of more technologically advanced segments among industrial companies. Nowadays, more small and medium scale enterprises contribute significantly to the economy. By the mid-90s, the private capital had surpassed the public capital. The management system had shifted from the traditional family based system to a system of qualified and professional managers. One of the most significant effects of the liberalization era has been the emergence of a strong, affluent and buoyant middle class with significant purchasing powers and this has been the engine that has driven the economy since. Another major benefit of the liberalization era has been the shift in the pattern of exports from traditional items like clothes, tea and spices to automobiles, steel, IT etc. The ‘made in India’ brand, which did not evoke any sort of loyalty has now become a brand name by itself and is now known all over the world for its quality. Also, the reforms have transformed the education sector with a huge talent pool of qualified professionals now available, waiting to conquer the world with their domain knowledge. (Rajagopalan, T. 1991)

India, after all these years of economic reforms, is at the crossroads. While one road leads India to economic prosperity and glory, the other road leads it to social inequality. Presently, as India is one of the fastest growing economies in the world, the social aspects have been ridden roughshod by the economic benefits. What has been conveniently forgotten or suppressed till date have been the disparities, mainly the socio-economical issues. This has led to growing discontent among the population
and it has gathered momentum since the reforms began 15 years ago. It will very soon reach a critical point wherein the very purpose for which the reforms were started, will start to lose their significance rapidly and throw the country back into the ‘license raj’ and ‘unionist’ era. The chasm between the rich and the poor has increased so vastly that the rich are just getting richer and the poor are just getting poorer. The real benefits of the economic reforms have rarely percolated to the lowest strata of society. Just to illustrate the same with an example, most of the states today vie with one another to grab a project of any significance, be it chemical, auto or even IT. In doing so, the benefits they are offering, right from free land to tax sops are being given on a platter. But the benefits or savings that a company gains from this does not affect the lower strata of management, but remains in the hands of the top management, thus depriving the former of the economic benefits. Also, most of the labor laws in the country are outdated and have not kept pace with economic reforms. Thus, the exploitation of the working class becomes much easier. A classic example is the BPO industry in our country. While most of them work in the nights, the pressure each employee faces to deliver results and the working conditions are appalling, to say the least. (Raj, T. 2000)

The agricultural sector has also seen this disproportionate growth, as it is a field that has been left high and dry in the pursuit of agricultural reforms. The sector has been opened up to the multi-nationals, without having evolved a comprehensive cover for our farmers, most of who are poor and own very little land of their own. A case in point is the spate of farmer suicides that our country has witnessed in the past few years. The developed countries, which clamour for open-ended policies, have, in fact, some of the fiercest protection policies when it comes to their agricultural sector. Small scale industries (SSIs), the heart and soul of many towns and villages, have been virtually ignored. More than half of them have closed down in the last few years in the face of intense competition from multi nationals who have unmatched financial and political muscle. On a parting note, what are essential for India are economic reforms with a social face. The economic policies and their subsequent reforms must be accompanied by suitable clauses to benefit the economically weaker sections. Various schemes must be thoroughly scrutinized and efforts must be made to see that the rewards must reach everyone. Then India will not only be economically prosperous, but will also forge ahead towards its goal of world dominance. (Venkatsubramanian, K.)
3.6. Compression between India and Ethiopia export-import policy

In exercise of the powers conferred under Section 5 of the Foreign Trade (Development and Regulation Act), 1992 (No. x22 of 1992), the Central Government hereby notifies the Export and Import Policy for the period 2002-2007. This Policy shall come into force with effect from 1st April, 2002 and shall remain in force upto 31st March, 2007 and will be co-terminus with the Tenth Five Year Plan (2002-2007). However, the Central Government reserves the right in public interest to make any amendments to this Policy in exercise of the powers conferred by Section-5 of the Act. Such amendment shall be made by means of a Notification published in the Gazette of India. (Appendix: V)

Any Notifications made or Public Notices issued or anything done under the previous Export Import policies and in force immediately before the commencement of this Policy shall, in so far as they are not inconsistent with the provisions of this Policy, continue to be in force and shall be deemed to have been made, issued or done under this Policy. License/certificate/permissions issued before the commencement of this Policy shall continue to be valid for the purpose for which such license/certificate/permission was issued unless otherwise stipulated.

In case an export or import that is permitted freely under this Policy is subsequently subjected to any restriction or regulation, such export or import will ordinarily be permitted notwithstanding such restriction or regulation, unless otherwise stipulated, provided that the shipment of the export or import is made within the original validity of the irrevocable letter of credit established before the date of imposition of such restriction.

The principal objectives of this Policy are:

To facilitate sustained growth in exports to attain a share of at least 1 percent of global merchandise trade. To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production and providing services. To enhance the technological strength and efficiency of Indian agriculture, industry and services, thereby improving their competitive strength while generating new employment opportunities, and to encourage the attainment of internationally accepted standards of quality.
To provide consumers with good quality goods and services at internationally competitive prices while at the same time creating a level playing field for the domestic producers.

The objectives will be met through the coordinated efforts of the State Governments and all the departments of the Government of India in general and the Ministry of Commerce and Industry and the Directorate General of Foreign Trade and its network of Regional Offices in particular, with a shared vision and commitment and in the best spirit of facilitation, in the interest of promotion of trade in goods and services. Special Economic Zones (SEZs) Offshore Banking Units (OBUs) shall be permitted in SEZs. Detailed guidelines are being worked out by RBI. This should help some of our cities emerge as financial nerve centers of Asia. Units in SEZ would be permitted to undertake hedging of commodity price risks, provided such transactions are undertaken by the units on stand-alone basis. This will impart security to the returns of the unit. It has also been decided to permit External Commercial Borrowings (ECBs) for tenure of less than three years in SEZs. The detailed guidelines will be worked out by RBI. This will provide opportunities for accessing working capital loan for these units at internationally competitive rates. Export restrictions like registration and packaging requirement are being removed today on Butter, Wheat and Wheat products, Coarse Grains, Groundnut Oil and Cashew to Russia. Quantitative and packaging restrictions on wheat and its products, Butter, Pulses, grain and flour of Barley, Maize, Bajra, Ragi and Jowar have already been removed on 5th March, 2002.

Restrictions on export of all cultivated (other than wild) varieties of seed, except Jute and Onion, removed. To promote export of agro and agro based products, 20 Agri export zones have been notified. In order to promote diversification of agriculture, transport subsidy shall be available for export of fruits, vegetables, floriculture, poultry and dairy products. The details shall be worked out in three months. 3 percent special DEPB rate for primary & processed foods exported in retail packaging of 11 kg or less.

(i) An amount of Rs. 5 crore under Market Access Initiative (MAI) has been earmarked for promoting cottage sector exports coming under the KVIC.
The units in the handicrafts sector can also access funds from MAI scheme for development of website for virtual exhibition of their product.

Under the Export Promotion Capital Goods (EPCG) scheme, these units will not be required to maintain average level of exports, while calculating the Export Obligation.

These units shall be entitled to the benefit of Export House status on achieving lower average export performance of Rs. 5 crore as against Rs. 15 crore for others; and

The units in handicraft sector shall be entitled to duty free imports of an enlarged list of items as embellishments up to 3 percent of FOB value of their exports.

With a view to encouraging further development of centers of economic and export excellence such as Tirupur for hosiery, woolen blanket in Panipat, woolen knitwear in Ludhiana, following benefits shall be available to small scale sector:

Common service providers in these areas shall be entitled for facility of EPCG scheme. The recognised associations of units in these areas will be able to access the funds under the Market Access Initiative scheme for creating focused technological services and marketing abroad.

Such areas will receive priority for assistance for identified critical infrastructure gaps from the scheme on Central Assistance to States. Entitlement for Export House status at Rs. 5 crore instead of Rs. 15 crore for others. Duty free imports of trimmings and embellishments up to 3 percent of the FOB value hitherto confined to leather garments extended to all leather products. Sample fabrics permitted duty free within the 3 percent limit for trimmings and embellishments. 10 percent variation in GSM is allowed for fabrics under Advance License. Additional items such as zip fasteners, inlay
cards, eyelets, rivets, eyes, toggles, velcro tape, cord and cord stopper included in input output norms. Duty Entitlement Passbook (DEPB) rates for all kinds of blended fabrics permitted. Such blended fabrics to have the lowest rate as applicable to different constituent fabrics. Customs duty on import of rough diamonds is being reduced to 0 percent. Import of rough diamonds is already freely allowed. Licensing regime for rough diamond is being abolished. Value addition norms for export of plain jewellery reduced from 10 percent to 7 percent. Export of all mechanised unstudied jewellery allowed at a value addition of 3 percent only. Having already achieved leadership position in diamonds, now efforts will be made for achieving quantum jump on jewellery exports as well. Personal carriage of jewellery allowed through Hyderabad and Jaipur airport as well. The Electronic Hardware Technology Park (EHTP) scheme is being modified to enable the sector to face the zero duty regimes under ITA (Information Technology Agreement)-1. The units shall be entitled to following facility: Net Foreign Exchange as a Percent of Exports (NFEP) positive in 5 years. No other export obligation for units in EHTP. Supplies of ITA I items having zero duty in the domestic market to be eligible for counting of export obligation. All pesticides formulations to have 65 percent of DEPB rate of such pesticides. Free export of samples without any limit. Reimbursement of 50 percent of registration fees for registration of drugs. Free import of equipment and other goods used abroad for more than one year. The status holders shall be eligible for the following new/special facilities: License/Certificate/Permissions and Customs clearances for both imports and exports on self-declaration basis. Fixation of Input-Output norms on priority; Priority Finance for medium and long term capital requirement as per conditions notified by RBI; Exemption from compulsory negotiation of documents through banks. The remittance, however, would continue to be received through banking channels; 100 percent retention of foreign exchange in Exchange Earners' Foreign Currency (EEFC) account; Enhancement in normal repatriation period from 180 days to 360 days. Fuel costs to be rebated by it in Standard Input Output Norms (SIONs) for all export products. This would enhance the cost competitiveness of our export products. The value of fuel to be permitted as a percent of FOB value of exports for various product groups is as
<table>
<thead>
<tr>
<th>Product Group</th>
<th>Value of fuel as a percent of FOB value of exports</th>
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<tbody>
<tr>
<td>Bulk Drug and Drug Intermediates</td>
<td>5 percent</td>
</tr>
<tr>
<td>Dye and Dye Intermediates</td>
<td>4 percent</td>
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<tr>
<td>Glass</td>
<td>5 percent</td>
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<tr>
<td>Ceramic Products</td>
<td>5 percent</td>
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<tr>
<td>Paper made from wood pulp/waste paper</td>
<td>5 percent</td>
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<tr>
<td>Pesticides (Technical)/Pesticides formulation from Basic Stage</td>
<td>5 percent</td>
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<tr>
<td>Refractory items</td>
<td>7 percent</td>
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<tr>
<td>Ferrous engineering products manufactured through forging/casting process</td>
<td>7 percent</td>
</tr>
<tr>
<td>Non ferrous basic metal</td>
<td>4 percent</td>
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</tbody>
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Plastic and plastic products from basic/monomer stage

<table>
<thead>
<tr>
<th>Process</th>
<th>Tax Rate</th>
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<tr>
<td>Fibre to yarn</td>
<td>4 percent</td>
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<tr>
<td>Yarn to fabric/madeups/garments</td>
<td>3 percent</td>
</tr>
<tr>
<td>Fibre to fabric/madeups/garments</td>
<td>7 percent</td>
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Setting up of "Business Centre" in Indian missions abroad for visiting Indian exporters/businessmen.

ITPO portal to host a permanent virtual exhibition of Indian export product. LAC (Latin American Countries) was launched in November, 1997 in order to accelerate our trade with Latin American countries. This has been a great success. To consolidate the gains of this programme, we are extending this up to March, 2003. Focus Africa is being launched today. There is tremendous potential for trade with the Sub Saharan African region. During 2000-01, India's total trade with Sub Saharan African region was US$ 3.3 billion. Out of this, our exports accounted for US$ 1.8 billion and our imports were US$ 1.5 billion. The first phase of the Focus Africa programme shall include 7 countries namely, Nigeria, South Africa, Mauritius, Kenya, Ethiopia, Tanzania and Ghana. The exporters exporting to these markets shall be given Export House Status on export of Rs.5 crore. Links with CIS countries to be revived. We have traditional trade ties with these countries. In the year 2000-01, our exports to these countries were to the extent of US$ 1082 million. In this group, Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan, Ukraine and Azerbaijan to be in special focus in the first phase. A new 8 digit commodity classification for imports is being adopted from today. This classification shall also be adopted by Customs and DGCI&S shortly. The common classification to be used by DGFT and Customs will eliminate the classification disputes and hence reduce transaction costs and time. Similarly, Ministry of Environment and Forests is in the
process of finalisation of guidelines to regulate the import of hazardous waste. Further simplification of all schemes. Reduction of the maximum fee limit for electronic application under various schemes from Rs. 1.5 lakh to Rs. 1.00 lakh. Same day licensing introduced in all regional offices. Adoption and harmonisation of the 8 digit ITC (HS) code. The percent of physical examination of export cargo has already been reduced to less than 10 percent except for few sensitive destinations. The application for fixation of brand rate of drawback shall be finalised within 15 days. Direct negotiation of export documents to be permitted. This will help the exporters to save bank charges. 100 percent retention in EEFC account he repatriation period for realisation of export proceeds extended from 180 days to 360 days. The facility is already available to units in SEZ and exporters exporting to Latin American countries. These facilities are being made available to status holders only for the present. Import/ Export of samples to be liberalised for encouraging product upgradation. Penal interest rate for bonafide defaults to be brought down from 24 percent to 15 percent.

No penalty for non-realisation of export proceeds in respect of cases covered by ECGC insurance package. No seizure of stock in trade so as to disrupt the manufacturing process affecting delivery schedule of exporters. Foreign Inward Remittance Certificate (FIRC) to be accepted in lieu of Bank Realisation Certificate for documents negotiated directly. Optional facility to convert from one scheme to another scheme. In case the exporter is denied the benefit under one scheme, he shall be entitled to claim benefit under some other scheme. Newcomers to be entitled for licences without any verification against execution of Bank Guarantee. Duty Exemption Entitlement Certificate (DEEC) book to be abolished. Redemption on the basis of Shipping bills and Bank Realisation Certificates. Withdrawal of Advance License for Annual Requirement (AAL) scheme as problems were encountered in closure of AAL and the significance of scheme considerably reduced due to dispensation of DEEC. The exporters can avail Advance License for any value. Mandatory spares to be allowed in the Advance License up to 10 percent of the CIF value. Technical characteristics to be dispensed with for audit purpose. Value cap exemption granted on 429 items to continue.

No Present Market Value (PMV) verification except on specific intelligence.
Same DEPB rate for exports whether as CBUs or in CKD/SKD form. Reduction in rates only after due notice. DEPB for transport vehicles to Nepal in free foreign exchange. DEPB rates for composite items to have lowest rate applicable for such constituent. EPCG licenses of Rs.100 crore or more to have 12 year export obligation (EO) period with 5 year moratorium period. EO fulfillment period extended from 8 years to 12 years in respect of units in agri-export zones and in respect of companies under the revival plan of BIFR. Supplies under Deemed Exports to be eligible for export obligation fulfillment along with deemed export benefit. Re-fixation of EO in respect of past cases of imports of second hand capital goods under EPCG Scheme. According to the economic reform and adjustment programs undergoing in the country, structural and organizational changes, significant both in magnitude and depth are taking place in all the social and economic sectors of the country. To this effect similar re-organisation schemes are taking place in the trade sector of the economy. For instance, production wholesale and retail trade activities which were previously in the hands of the public sector are now being privatized. The following interview was kindly accorded to our magazine by officials of the Ministry of Trade on the present features of the Ethiopian Trade in general and the future policy directions in particular. Ethiopia is among the least developed countries where the economy is primarily agriculture based and quite backward. The rudimentary stage of industrial growth combined with the traditional style of farming force the people to depend on the gifts of nature for their livelihood. As a result, drought, famine and malnutrition have remained rampant in the country for so long owing to weather and environmental disorders. Furthermore, government policies have also persistently aggravated the whole economic situation until finally the people were left stranded and helpless. As in everywhere else, the impact of this national economic disorder has manifested itself in the trade sector also. With regards to foreign trade, the past regime's economic policy of socialization has brought production, wholesale distribution and retail trade activities under the grip of the bureaucratic control of the government. On the other hand participation of the private sector in the economic activities was highly discouraged and hampered by the government. As a result of this, repeated sharp falls in total output in general and supplies of exportable products in particular were experienced year after year. Apart from this, lack of technical knowhow, shortage of agricultural inputs such as
fertilizers and improved seed, very poor or no infrastructure on farm sites and natural calamities have contributed a great deal in the decrease of agricultural supplies. There was also a problem of lack of competitiveness because of poor quality in packaging, design, presentation, etc. and quality of the product itself because of poor technology which arose from the production capacity of the machine in the industrial sector. The root cause of the failure to produce quality products on the other hand is lack of foreign currency which should have been obtained from the sale of exportable products both agricultural and industrial which in turn could have been used for the purchase of new machines or for the maintenance and rehabilitation of old ones. Coffee being the major export, any fall in the international price gives a real shock to the national economy since the bulk of the country's foreign exchange earning comes from it. On top of this the forceful seizure of peasants' exportable out-put by state marketing corporations at very low prices pushed the products underground. These products were either sold at higher domestic prices or smuggled into neighbouring countries searching for better prices. This of course had been the real situation which made the problem worse and forced the national economy to stagger heavily.

Finally, facilities like transportation systems and services by institutions like banks, customs office, maritime, standard authority and shipping lines have had significant roles to play either negatively or positively in the foreign trade activity. For all delays and red tapes in any one of these institutions the country has paid so huge a sacrifice in its limited foreign exchange earnings. Similarly, the sector of domestic trade has encountered many problems mainly arising from inappropriate policy measures. As was the case with the foreign trade, the major problem here has also been shortage of consumer goods. The problem of this acute shortage of consumer goods and service was aggravated by the endless war which directly consumed a great portion of it and forcefully detached young and productive peasants and workers from their farm lands and the factories. Economic mismanagement was another major problem. State monopoly over the wholesale and retail trade corporations led to resource misallocation of both human and material, exhibiting inefficiencies at all levels. This inefficient management proved to be a bottleneck for the proper distribution of goods and services to the people concerned. Not only this, it also gave way to nepotism, bribery, embezzlement and corruption,
which spread like a prairie fire in the whole of the nation. The sole beneficiaries of this system were often higher government officials and illegal merchants. The price policy adopted by the past regime has further exacerbated the problems of the sector. Almost all locally produced consumers good including grain as well as a package of different imported items were price controlled. The past price policy created chronic shortage of goods, parallel markets, higher prices and illegal traders. Since prices given to peasants by the state owned Agricultural Marketing Corporation was very low, production was discouraged and productivity in the agricultural sector was highly reduced. The past regime generally restricted individuals not to have more than one trade license. Not only this, issuing license in many other trade categories were totally curtailed on the pretext of shortage of supply. Capital restrictions that hampered the development of private entrepreneurship were also imposed. In addition traders were not allowed to open branches in other areas and movement of license from one place to another was also restricted. These and many other restrictions generally discouraged private investors not to engage themselves in productive business activities. Forced by the wave of revolutionary and Marxist theme of young intellectual groups who rallied for the establishment of people's government, the military junta put itself in power forcefully and claimed to be socialist government. In the name of socialism, the Dergue regime took the following economic measures as a remedy to all economic and social evils that were perpetrated by the past feud-bourgeois government. The measures were:

1. The land reform adopted in 1976
2. The nationalization and socialization of private properties
3. Expansion of state and collective farms
4. The intensive resettlement programme
5. Intensification of the policy of the command economy
6. The subsidy scheme

However all of the above proved to be futile and resulted in:

1. No private participation
2. An overwhelming increase in cost of production
3. Shortage of spare parts, accessories, raw materials, etc.
4. Shortage of exportable products and thus of foreign exchange earnings.

Although the problem of shortage could have been tackled by increasing production
and by importing from abroad, the past regime tried to solve the problem by introducing strict quota and rationing system. To make this practical, the government tried to have full control of wholesale and retail outlets of the scarce goods and services which instead gave way to corruption and embezzlement. In order to streamline domestic trade activities along with socialist principles, the past regime strengthened its hold of the economic activity through price control. As a result all locally produced goods including grain imported petroleum and petroleum products, spare parts, pharmaceuticals, grocery items etc. were kept under price control.

**Export Promotion:** - Unless a country exports, it won't have the foreign currency to import necessary materials, equipment and relevant technology it needs for development and to clear its deficits in its balance of payments. To meet all these demands, export promotion which is stimulation of a country's export should be undertaken by the government. Government should allocate the necessary budget to conduct workshops, advertising activities and participate in trade fairs and other promotional activities. The past regime however was very stringent in all these.

As indicated in the New Economic Policy the new directions involve: Gradual withdrawal of the state from wholesale trade activity. Paving the way for domestic private capital to involve in wholesale trade, the state will limit itself to issue and enforce laws and policies to regulate private wholesale trade practices. The state may engage itself in the wholesale trade of basic goods of mass consumption to stabilize prices. The state will pull out from the retail trade activity and create the necessary conditions for private capital and cooperatives to freely engage themselves in such activities. In the retail trade activity, the major concern of the state will be to issue appropriate regulation and directives and enforce them.

The state facilitates all conditions to foster the participation of private capital both individually or through partnerships. The state may also participate in limited areas jointly with domestic or foreign investors. Foreign trade activities will be left to private capitalists except those which require special consideration and those areas will be studied and defined by law. In addition to this the state will regulate foreign trade by issuing foreign exchange and import-export regulations. Foreign trade will be promoted by providing fiscal incentives to exporters and import oriented undertakings. Attempts will also be made to minimize bureaucratic procedures and trade information will be provided. The state will ensure the prudent
utilization and allocation of foreign exchange and help diversify exports do that foreign currency shortage will be eased. Forced purchase of agricultural products at very low fixed prices by AMC has come to an end. This act helped peasants to sell their output for the highest bidder in the free market. The preponderant role of ECMC is reduced through the re-establishment of the participation of private traders at the coffee auctions under the free auction system. It is assumed that the devaluation has enabled the realization of the realistic exchange rate of the Ethiopian Birr.

With the view to increase the flow of imported goods and ease domestic supply situations, the franco-valuta system has been reintroduced. Financial incentives through tax rebates, offsetting import controls, reform of administrative procedures and establishment of relevant institutions and institutional supports are some of the practical deeds.

The Transitional Government of Ethiopia has issued Ethiopia's economic policy for the transitional period. Among other things the policy has got a part that deals with the trade sector. Except very few, almost all legal instruments Proclamations and regulations/which the trade sector bases its activities were issued during the past regimes. However, a new investment proclamation has been issued by the Transitional Government which made the formation of business organizations (share companies, private limited companies, etc.) possible as per the commercial code of Ethiopia - a right which was denied during the Dergue regime. Besides, there are also directives issued which lifted the restrictions on the engagement of a person in more than one trade, capital ceiling and the prohibition of some trades to be done by individuals. The requirement that a person was expected to have a experience and knowledge in foreign trade to get license, the issuance of foreign trade license by a committee, the protection of government monopoly with respect to some items in foreign trade have been similarly cancelled. Apart from this, the transitional government has issued sales and excise tax proclamation to establish export trade duty incentive scheme to facilitate and promote the trade activities. Nowadays, economic integration for African countries is not a matter of choice. Rather, it has become a matter of necessity to meet the challenges posed by the emerging world of trading blocks. To this effect, not only signing sub regional treaties and trade agreements like the PTA, but also the creation of a Pan-African
Economic Community is deemed to be paramount importance. Hence, the Abuja Treaty is adopted in 1991 by the OAU member states to create a Pan-African Economic Community which will be realized in the year 2025. If not more, the same logic applies to the prospect of economic integration within Ethiopia. Most locally produced goods, grain and imported items are not subject to price control. Wholesale and retail trade organizations have become more or less autonomous to work competitively on the basis of profitability.

1. Restrictions on wholesale and retail trade licensing are cancelled.
2. Minimum prices for coffee, sesame and bean are fixed and guaranteed.
3. Sales and Excise Tax Proclamation and Proclamation to Establish
4. Export Trade Duty Incentive Scheme are issued to ease foreign trade activities.
5. The Investment Decree liberalizes

Being an integral part of the world economic system, price fluctuations and other ups and downs in the supply of commodities like oil will directly or indirectly affect our national economy. Since we export only limited range of primary products and import oil, high valued capital goods, spare parts, fertilizers, pharmaceuticals etc., our foreign exchange earnings will be apped by importing these commodities. This becomes more serious since we pay more birr for our imports after the devaluation than before. The Economy top. The Ethiopian economy is predominantly agricultural and the production in such sector constitutes a major part of the country’s economy, contributing about 45 percent for the country’s gross domestic product (GDP) and about 62 percent for total exports. It accounts for 85 percent of total employment. Coffee, a major cash crop, is of high quality and contributes about 62 percent of total agricultural exports. So, it is a major source of foreign-currency earnings. Manufacturing, mining, trade, tourism, construction, services, etc., which make up the remaining 55 percent of GDP, supplement agriculture. Industry contributes only 11 percent to GDP and 16 percent to the total exports. Agriculture is predominantly in the hands of small farmers working on individual small holdings mainly for household consumption. So, the sector has remained fragmented and inefficient. This is a vivid indication that Ethiopia's agriculture is characterized by its low level of mechanization and makes the sector receptive to technological adaptation and attractive to investment, both foreign and domestic. Varieties of crops
are grown in different parts of the country seasonally. The main crops are cereals (teff, barely, maize, wheat, sorghum, and millet), pulses (horse beans, vetch and lentils) and oil seeds (niger seed, flax, rape seed, sesame, castor beans and soya beans). The main cash and industrial crops are coffee, oil seeds, pulses, cotton, sisal, tobacco, fruits and sugar cane. As aforementioned, 10.9 percent of the GDP comes from the industrial sector supplying important consumer goods to the domestic market. The major manufactured export products include clothing and apparel, canned and frozen meat, semi-processed hides and skins, sugar and molasses, footwear, tobacco, beverages, oil cakes and bees wax. Although less than 3 percent of the GDP currently comes from the mining sector, there are proven reserves of minerals such as gold, platinum, tantalum, nickel iron-ore, coal, marble, potash, copper, silica, limestone, diatomite, etc., as well as oil and natural gas, awaiting exploitation and making the country a destination for business and investment to both foreign and domestic investors. Economic Liberalization top Since 1992, the Government has successfully implemented a series of reform programmes in order to transform the economy from command to market economy, speed up the integration of the economy into the world economy and encourage the wider participation of the private sector in the development of the national economy. Such reforms include, among others, the following short-term economic stabilization and structural adjustment measures:

1. deregulation of domestic prices;
2. liberalization of foreign trade;
3. privatization of public enterprises;
4. abolition of all export taxes and subsidies;
5. devaluation of the exchange rate followed by the introduction of inter-bank foreign currency market and the determination of exchange rates based on market forces; enhancing private sector development and private-public partnership through providing effective industry association; and creating a forum for consultation between the private sector and the government;
6. promulgation of a liberal investment law for the promotion and encouragement of private investment, both foreign and domestic; issuance of a new labour law; strengthening and enhancing institutional
support for the export sector through strengthening/revitalizing existing institutions and establishing such new institutions as:

1. the Ethiopian Livestock Marketing Authority;
2. the Ethiopian Leather and Leather Products Technology Institute,
3. the Ethiopian Export Promotion Agency;

As a result, a great deal has been achieved since 1992 in moving from a highly centralized economy to a more liberal market economy. Particularly, as a result of such liberalization, the economy has showed a marked improvement growing at annual average rate of 6.4 percent in the last several years. The rate of inflation declined from around 20 percent in 1992 to an annual average rate of below 4 percent for the last ten years. The country’s foreign exchange has improved, the budget deficit has declined to acceptable level and above all private investment activities have flourished.

Initial Investment Capital and Investment Areas. A foreign investor, who intends to invest on his/her own, except in consultancy services and publishing, is required to invest not less than USD 100,000 in cash and/or in kind as an initial investment capital per project. The minimum capital required of a wholly foreign investor investing in consultancy services or publishing is USD 50,000, which may be in cash and/or in kind. A foreign investor reinvesting his/her profit or dividends, or exporting 75 percent of his/her outputs, however, is not required to allocate a minimum capital. A foreign investor is allowed to invest in all areas of investment except those reserved for government, Ethiopian nationals and other domestic investors.

Areas of Investment Reserved for Domestic Investors

The following areas are exclusively reserved for domestic investors:

- retail trade and brokerage;
- wholesale trade (excluding supply of petroleum and its by-products as well as wholesale by foreign investors of their products locally produced);
- import trade (excluding LPG, bitumen and up on the approval of the Council of Ministers; materials used as inputs for export products);
- export trade of raw coffee, chat, oil seeds, pulses, hides and
skins bought from the market and live sheep, goats and cattle not raised or fattened by the investor;  
construction companies excluding those designated as grade 1;  
tanning of hides and skins up to crust level;  
hotels other than those star-designated, motels, pensions, tea rooms, coffee shops, bars, night clubs and restaurants excluding international and specialized restaurants;  
travel agency, trade auxiliary and ticket selling services;  
car-hire and taxi-cabs transport services;  
commercial road transport and inland water transport services;  
bakery products and pastries for the domestic market;  
grinding mills;  
barber shops, beauty saloons, and provision of smith workshops and tailoring services except garment factories;  
building maintenance and repair and maintenance of vehicles;  
saw milling and timber making products;  
customs clearance services;  
museums, theaters and cinema hall operations;  
printing industries.

Notwithstanding the provision of paragraph 1 of this schedule, the following areas of investment are exclusively reserved for Ethiopian nationals:

banking, insurance and micro credit and saving services;  
travel and shipping agency services;  
broadcasting services; and  
air transport services using aircraft with a seating capacity of up to 20 passengers.

Major Investment Incentives  top To encourage private investment and promote the inflow of foreign capital and technology into Ethiopia, the following incentives are granted to both domestic and foreign investors engaged in areas eligible for investment incentives:

Customs Import Duty One hundred percent exemption from the payment of import
customs duties and other taxes levied on imports is granted to an investor to import all investment capital goods, such as plant machinery and equipment, construction materials, as well as spare parts worth up to 15 percent of the value of the imported investment capital goods, provided that the goods are not produced locally in comparable quantity, quality and price.

Investment capital goods imported without the payment of import customs duties and other taxes levied on imports may be transferred to another investor enjoying similar privileges.

Some investment areas such as hotels (other than star designated), wholesale, retail and import trade, maintenance service, etc. are not eligible for exemption from customs duty. Exemptions from customs duties or other taxes levied on imports are granted for raw materials necessary for the production of export goods. In accordance with the Proclamation No. 240/2001, three duty incentive schemes are available for exporters. They are Duty Draw-Back Scheme, Voucher Scheme and Bonded Manufacturing Warehouse Scheme. Taxes and duties paid on raw materials are drawn back at the time of export of finished products. The duty draw back scheme applies to all taxes at the time of importation, and those paid on local purchases.

Exemption from Payment of Export Customs Duties Ethiopian products and services destined for export are exempted from the payment of any export tax and other taxes levied on exports. Income Tax Holiday Any income derived from an approved new manufacturing and agro-industry investment or investment made in agriculture shall be exempted from the payment of income tax for the periods depicted in the following table, depending upon the area of investment, the volume of export, and the location in which the investment is undertaken.

Profit tax holiday is granted subject to Council of Ministers Regulation No.84/2003 issued on the basis of the Investment Proclamation No. 280/2002 as follows:

<table>
<thead>
<tr>
<th>Areas and Periods of Tax Exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conditions for Profit Tax Eligibility</td>
</tr>
</tbody>
</table>
An investor engaged in a new manufacturing or agro-industry activity:

<table>
<thead>
<tr>
<th>Conditions</th>
<th>Regions</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>If he exports at least 50% of its products</td>
<td>5 years</td>
<td>6 years</td>
<td></td>
</tr>
<tr>
<td>If he supplies at least 75% of its products, to an investor, as an input for the production of export items</td>
<td>5</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>If it exports less than 50% of its products</td>
<td>2</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>If the project is evaluated under a special circumstance by the BOI</td>
<td>up to 7</td>
<td>up to 8</td>
<td></td>
</tr>
<tr>
<td>If the production is for the local market</td>
<td>2</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>If the production mentioned above in (c) is considered by</td>
<td>5</td>
<td>6</td>
<td></td>
</tr>
</tbody>
</table>
the BOI to be a special one

<table>
<thead>
<tr>
<th>Expansion or upgrading of the above projects:</th>
</tr>
</thead>
<tbody>
<tr>
<td>If the expansion or upgrading increases the existing production by 25 percent, in value and 50 percent of the production is to be exported</td>
</tr>
</tbody>
</table>

Board of Investment. Moreover, the Council of Ministers may also award profit tax holiday for greater than seven years. However, the Board may issue a directive to deny income tax exemption right granted to investors producing only for local market, as may be necessary. The period of exemption from profit tax begins from the date of the commencement of production or provision of services, as the case may be. Loss Carried Forward Business enterprises that suffer losses during the tax holiday period can carry forward such losses for half of the income tax exemption period following the expiry of the exemption period. Guarantees to Investors top Ethiopia provides the following guarantees to foreign investors:

Repatriation of Capital and Profits Capital repatriation and remittance of dividends and interest is guaranteed to foreign investors under the Investment Proclamation. Any foreign investor has the right, in respect of an approved investment, to make the following remittances out of Ethiopia in convertible currency at the prevailing exchange rate on the date of remittance:

1. profits and dividends accruing from an investment;
2. principal and interest payments on external loans;
3. payments related to technology transfer or management agreements;
4. proceeds from sale or liquidation of an enterprise;
5. proceeds from the sale or transfer of shares or of partial ownership of an enterprise to a domestic investor;
6. compensation paid to a foreign investor;

Expatriates employed in an enterprise may remit, in convertible foreign currency, salaries and other payments accruing from their employment in accordance with the foreign exchange regulations or directives of the country.

Guarantee Against Expropriation. The constitution of the Federal Democratic Republic of Ethiopia protects private property. The Investment Proclamation also provides investment guarantee against measures of expropriation and nationalization that may only occur for public interest and in compliance with the requirement of the law. Where such expropriations are made, the Government guarantees to provide adequate compensation corresponding to the prevailing market value of property and such payment shall be effected promptly. Other guarantees Ethiopia is a member of the World Bank-affiliated Multilateral Investment Guarantee Agency (MIGA) which issues guarantees against non-commercial risks to enterprises that invest in signatory countries. Ethiopia is currently concluding bilateral investment promotion and protection agreements with a number of developed and developing countries and it is ready to conclude such treaties with any country at any time. Ethiopia has also signed the World Bank treaty, “the International Convention on Settlement of Investment Disputes between States and Nationals of other States (ICSID)”.

Taxation top The principal taxes currently in place are profit tax, turn over tax (TOT), value-added tax (VAT), excise tax, customs duty and income tax from employment. VAT has replaced sales tax. TOT and withholding taxes have been introduced recently. Other taxes include corporate tax, dividend income tax, royalties and stamp duties. The Government has recently been introducing a series of measures to reform the tax system with a view to encouraging investment and foreign trade. On the whole, the reform process is to reduce the rates but broaden the base. Corporate Income Tax The corporate income tax (tax on profit) in Ethiopia is 30 percent. Turn Over Tax (TOT) A 2 percent tax is payable from supplying of goods to the local market and rendering of construction, grain mill, tractor, combine harvesting services undertaken in the country. A 10 percent tax is payable on other
sectors excluding the above mentioned services. Excise Tax Excise tax is levied on selected items when produced locally or imported from abroad. The tax rate ranges from ten percent to hundred percent.

Customs duties are payable on imports by all persons and entities which have no duty-free privileges. The main regulation on customs duty has introduced a harmonized system of classification of goods and the rate of customs duty ranges from 0 to 35 percent. Income Tax from Employment Personal income tax is payable as per Proclamation No.286/2002. According to this law, the first Birr 150 of monthly personal income is exempted from payment of income tax. For monthly income of Birr 151 and above the marginal tax rates range from 10 percent to 35 percent with 7 income brackets as shown below.

<table>
<thead>
<tr>
<th>Income tax from employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly income (Birr)</td>
</tr>
<tr>
<td>Up to 150</td>
</tr>
<tr>
<td>151-650</td>
</tr>
<tr>
<td>651-1400</td>
</tr>
<tr>
<td>1401-2350</td>
</tr>
<tr>
<td>2351-3550</td>
</tr>
<tr>
<td>3551-5000</td>
</tr>
<tr>
<td>Above 5000</td>
</tr>
</tbody>
</table>

Export Taxes There are no taxes on export products and services from Ethiopia. Withholding Tax Withholding tax is payable on import of goods and is set at 3 percent of the same cost, insurance and freight. In case of organizations, having legal personality, government agencies, private non-profit institutions, and non-governmental organizations (NGOs), the amount withheld is 2 percent of the gross amount of payment. Value Added Tax Value added tax is levied on those businesses whose turnover is over and above Birr 500,000 per year. They are expected to pay 15 percent VAT. All export goods and basic services, however, are exempted from VAT.
<table>
<thead>
<tr>
<th>Principal Taxes</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Income Tax</td>
<td>30percent</td>
</tr>
<tr>
<td>Turn Over Tax (TOT)</td>
<td>2percent and</td>
</tr>
<tr>
<td></td>
<td>10percent</td>
</tr>
<tr>
<td>Excise Tax</td>
<td>10percent up to</td>
</tr>
<tr>
<td></td>
<td>100percent</td>
</tr>
<tr>
<td>Customs Duties</td>
<td>0percent up to</td>
</tr>
<tr>
<td></td>
<td>35percent</td>
</tr>
<tr>
<td>Income Tax from Employment</td>
<td>0percent up to</td>
</tr>
<tr>
<td></td>
<td>35percent</td>
</tr>
<tr>
<td>Export Taxes</td>
<td>---</td>
</tr>
<tr>
<td>With holding Taxes</td>
<td>2percent</td>
</tr>
<tr>
<td>Value Added Tax</td>
<td>15percent</td>
</tr>
</tbody>
</table>

Tax Treaties Ethiopia has concluded tax treaties with a number of countries and is also ready to conclude similar treaties with other countries for the purpose of avoidance of double taxation. For more details refer to the web site of the Ethiopian Investment Commission. (www.investinethiopia.org)

3.7. Evolution of Indo-Ethiopian Economic relations

It is analytically awkward to compare the relationship between a country and a continent. Arguably, in this case it is possible since India is a postcolonial country of continental proportions due to its size and diversity, while the African continent is comprised of sixty-one territories, with shared histories, identities and closely tied economies carved out rather arbitrarily by former colonizers. Traditionally Africa-India relationship has been driven by the shared historical experience of colonization and the concomitant political, social and economic problems that the newly independent states faced. During the Cold War era, the Non-Aligned perspective espoused by India and a significant number of African countries created further common grounds. Additionally, the Indian Diaspora settled on the African continent since colonial times has been an important agent in this relationship. However, the emergence of the New or Knowledge Economy has affected India and Africa remarkably differently. While the resilience of democracy and the post-independence
policy of government subsidization of education, coupled with the liberalization of economic sectors opened the flood gates of impressive economic growth and a reckoning as a future world power for India, Africa has benefited marginally from the New Economy, with only a few exceptions. Poverty has widened and deepened even in the most developed economies in Africa; political instability has become the hallmark of a number of African countries; and regionalization efforts have remained stymied. Ironically the rise of the BRIC group of countries (Brazil, Russia, India, and China) has led to further political and economic marginalization of the African countries internationally. Economically, China and India are greatly contributing to demand growth for African commodities; however, this is only contributing to a raw material boom. (Srivastava, M. and Wenran Jian, 2007: 1)

The decision to strengthen relations between India and Africa is not a new phenomenon. We have a common colonial past and in the post-colonial period we have worked together. India did not want to impose any pattern on Africa and it was for Africa to choose its own pattern of development. However, India would be privileged to be a partner in that process, headed. India's decision to expand unilateral duty free and preferential market access for exports from all the 50 Least Developed Countries, 34 of which are in Africa, and its offer of lines of credit amounting to $5.4 billion are steps in this direction in making the bond stronger. India also offered its assistance in ushering in a Green Revolution in Africa through holistic capacity building in agricultural production, storage and transportation. India has also begun to develop cooperation with the Regional Economic Communities of Africa and with the African Union (AU). Both India and Africa had agreed that Africa and India deserved permanent representation on the UNSC and would support each other. Both sides had been broadly working together for UN reforms and were now ready to strive to make the UN more representative and democratic. Towards the end of Nehru's tenure, India's Africa relation dipped to a low. By the mid-1960s India undertook a serious reassessment of its Africa policy and adopted some fresh initiatives. By the 1970s, India's stature had risen in African eyes; the Indo-Soviet Treaty (1971), the 1971 war, the Green Revolution, and the Peaceful Nuclear Explosion (PNE) in 1974 probably contributed towards this change. In the 1970s and 1980s India continued to support liberation struggles in Africa. It worked closely with the Africans in the fight against South Africa and Namibia; not just at the UN but also at other multilateral for a as NAM, and the Commonwealth. (Jain, P., 2008: 1-2)
India is the world's most-populous democracy in the world. Economic growth of India is in continuously increasing. It is the second-fastest major economy in the world after China. With the world's fourth largest armed forces, and fourth largest economy (in PPP terms), it is considered to be a regional power and a potential superpower. It is India's growing international influence that increasingly gives it a more prominent voice in global affairs. (Singh, Daleep, 1986-87: 2)

India has had good relationships with most sub-Saharan African nations for most of its history. In the Prime Minister's visit to Mauritius in 1997, the two countries secured a deal to a new Credit Agreement of 10.50 crore INR (3 million USD) to finance import by Mauritius of capital goods, consultancy services and consumer durable from India. The government of India secured a rice and medicine agreement with the people of Seychelles. India continued to build upon its historically close relations with Ethiopia, Kenya, Uganda and Tanzania. Visits from political ministers from Ethiopia provided opportunities for strengthening bilateral cooperation between the two countries in the fields of education and technical training, water resources management and development of small industries. This has allowed India to gain benefits from nations that are generally forgotten by other Western Nations. The South African President, Thabo Mbeki has called for a strategic relationship between India and South Africa to avoid imposion by Western Nations. India continued to build upon its close and friendly relations with Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Sudan, Swaziland, Zambia and Zimbabwe. The Minister of Foreign Affairs arranged for the sending of Special Envoys to each of these countries during 1996-97 as a reaffirmation of India's assurance to strengthening cooperation with these countries in a spirit of South-South partnership. These relations have created a position of strength with African nations that other nations may not possess. (Singh, D., 1986-87: 2-10)

The recent India-Africa Forum Summit in New Delhi is an effort of putting threads of friendship to both the countries with the plan of action focuses on furthering cooperation in other areas also like environment, health, education, energy and mining. Other issues also addresses broader areas of cooperation and common views on regional and international issues, including fight against terrorism, climate change and WTO negotiations. (Jain, P., 2008: 1)

Therefore, it can be said that in close association with the Government and people of Ethiopia, a new paradigm of cooperation and partnership in the true spirit of
South-South Cooperation created between Ethiopia and India. Ethiopia’s choice of democracy as a system of governance is a matter of satisfaction to India. It has always been India’s belief that plural democracy is the best way to meet the socio-economic and developmental needs of Indian people and for the fight against poverty. Ethiopia’s main aim is to achieve fast economic growth and self-reliance. Both India and Ethiopia worked together in the economic sector and co-operated each other. When we talk about the economic relations between both the countries then there are many sectors where they combine forces to help each other, like: agriculture sector, non-agriculture sectors, service sectors, industrial sectors, trade etc. From the following paragraphs it will become clear about the relations between Ethiopia and India in economic sectors as well as, the impact of globalization on Ethiopia’s economy and India’s economy and together on both the countries.

3.8. Trade relation between India and Ethiopia

Table: 3.4

<table>
<thead>
<tr>
<th>NO</th>
<th>PERIOD</th>
<th>INDIA’S EXPORT TO ETHIOPIA</th>
<th>INDIA’S IMPORTS FROM ETHIOPIA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>In lakh Rupees</td>
<td>In million US$</td>
</tr>
<tr>
<td>1</td>
<td>April 1998 to March 1999</td>
<td>26608.37</td>
<td>64.8</td>
</tr>
<tr>
<td>2</td>
<td>April 1999 to March 2000</td>
<td>24555.17</td>
<td>56.9</td>
</tr>
<tr>
<td>3</td>
<td>April 2000 to March 2001</td>
<td>29925.85</td>
<td>66.5</td>
</tr>
<tr>
<td>4</td>
<td>April 2001 to March 2002</td>
<td>43248.82</td>
<td>90.4</td>
</tr>
<tr>
<td>5</td>
<td>April 2002 to March 2003</td>
<td>30028.97</td>
<td>61.7</td>
</tr>
<tr>
<td>6</td>
<td>April 2003 to March 2004</td>
<td>35214.59</td>
<td>76</td>
</tr>
<tr>
<td>7</td>
<td>April 2004 to March 2005</td>
<td>24114.47</td>
<td>53.3</td>
</tr>
</tbody>
</table>

Source: Central Statistical Authority, Ethiopia (Calendar year)

The trade relation between India and Ethiopia is growing gradually. In 1992, it was only about 12 million USD. In 2000/2001, for the first time, the trade relation between the two countries crossed the hundred million mark, 108 million USD out of which the Indian share was around 90.4 million and Ethiopian was around 18.4 million and in 2002/03, out of 72 million USD, the Indian share was over 60 million
and the Ethiopian was 10 million. So, more or less the balance is in India's favour. There is a lot of emphasis on the promotion of trade relations recognizes the potential of both countries. There is presently more action in the business community. Ethiopia staged an Indian exhibition in 2002, which is the first in its types in the Horn of Africa. About 50 companies participated and exchanged their profiles to Ethiopian business community. They also got opportunities to interact with members of the Indian (Ethiopia-Indies) business community. India is participating regularly in the Addis Ababa trade fare focuses on mostly iron and steel products, machineries, drugs, pharmaceuticals, plastics, leather, cotton, and pulses. Our industries are keen to invest more in the field of electronics, food processing, business, agro industries and agro-based industries, etc. (Kumar, S., 2004: 2-4) (Appendix: VI)

India has been actively promoting trade with Africa in recent years. To boost the country's trade with the Sub-Saharan African region, the Government of India launched the “Focus: Africa” programme under the EXIM Policy 2002-07. Target countries identified during the first phase of the programme include Mauritius, Kenya and Ethiopia. The Government of India provides financial assistance to various trade promotion organisations, export promotion councils and apex chambers in the form of Market Development Assistance under the “Focus: Africa” programme. To promote bilateral and regional commercial relations with the COMESA Region, India’s Exim Bank has extended Lines of Credit (LOCs) to support export of eligible goods on deferred payment terms. The operative LOCs covering this region include US$ 5 million each to the Eastern and Southern African Trade and Development Bank (PTA Bank), the Industrial Development Bank Ltd, Kenya, and the East African Development Bank (EADB). These Lines of Credit seek to expand export of product groups identified as those with potential to enhance trade between two regions. India's potential exports to these countries include machinery and transport equipment, petroleum products, paper and wood products, textiles, iron and steel, plastic and linoleum products, rubber manufactured products, agro products, chemicals and pharmaceutical products. These countries can also be important sources for import of petroleum, metallurgical goods, raw cotton, fruit, vegetables and preparations, chemicals, non-metallic mineral manufactures precious stones, textile yarn, gold, nickel, and ferro-alloys. Further, these countries offer potential for investment in sectors such as tourism, pharmaceuticals, electronics, computer software and accessories, information technology related products, financial services and textiles.
On another front, the southern Indian state of Andhra Pradesh has signed a preliminary deal with Kenya and Uganda to send 500 farmers to cultivate land in the East African nations. The Andhra Pradesh government has signed letters of intent with Kenya for 50,000 acres (20,234 hectares) and with the Uganda Investment Authority for 20,000 acres (8,000 hectares). The Indian farmers would work as entrepreneurs and landowners, not as laborers. With East Africa lacking experienced manpower to till the land, Andhra Pradesh officials spotted a good opportunity to export its skilled manpower. Authorities in East Africa signed the agreements to give land on a 99-year-old lease to a farmer's co-operative society from Andhra Pradesh. Land in Uganda is being given for $3.75 dollars per acre while the government is still negotiating the price for Kenya. This is an encouraging development. Our farmers are very good at what they do but they've been set back by droughts and a shortage of fertile land. Now they'll be able to take full advantage of the land and infrastructure in Africa," said N Raghuveera Reddy, agriculture minister of Andhra Pradesh.

In another development, the Indian government opened a business centre in Durban to help cut the red tape in deals between the two nations. With more Indian businessmen looking to gain a foothold in South Africa, a high-powered delegation headed by India's wealthiest man, industrialist Ratan Tata, visited the country recently. Already Tata Motors and its rival, Indian car giant Mahindra & Mahindra have made inroads into the South African motor industry with the recent launch of new vehicles. Tata Africa Holdings, a subsidiary of the Tata Group, is vying for a controlling stake in South Africa's second telephone network operator worth more than Rands 4 billion. Total bilateral trade between India and South Africa is approaching Rand 6.5 billion, with imports from India at Rand 3.12 billion and exports to India at Rand 3.35 billion. Indian investment in South Africa is estimated at $100 million. (www.africa-business.com)

India and Ethiopia have long-standing economic and commercial relations, which are centuries old and can be traced back to the past 2000 years of recorded history. During the Axumite Kingdom, Indian traders flocked to the ancient port of Adulis in the eastern part of Ethiopia and traded silk and spices for gold and ivory. In recent years, with the opening up of the Ethiopian economy, business ties between the two countries have grown significantly, especially in the area of infrastructure projects like roads, power, telecommunications and water resources. During various meetings, Prime Minister Meles Zenawi has warmly spoken of further increasing
bilateral trade and more investments by Indian companies in Ethiopia. Similar views have been echoed on several occasions by other Ministers and senior officers, and India is generally viewed as a role model for development in agriculture, rural development, education, IT, healthcare, small scale industries. The economic part of the bilateral relationship has now become the most important. Bilateral Trade: The bilateral economic relations are moving forward with the growing private sector investments from India, with 379 Indian companies having secured investment licenses in different areas with a total capital of US$ 3.6 billion during the period 1992 - 2008. (www.africa-business.com)

The trade figures for a small country like Djibouti, which serves as the port for landlocked Ethiopia, are unrealistic and Djibouti does not have the capacity to absorb or utilize such high Indian exports. Obviously, exports intended for Ethiopia are shown as destination Djibouti due to several factors internal to Ethiopia which is leading to trade diversion to Djibouti. The bilateral trade is to be viewed in conjunction with India’s trade with Djibouti, which is the entry port for Ethiopia. In the past few years, Indian exports to Ethiopia faced unfavourable conditions like increase in the price of steel in the international market which is a major item imported from India and penetration of low-priced Chinese goods into Ethiopian market. Exports from India consist mainly of primary and semi-finished iron and steel products, drugs and pharmaceuticals, machinery and instruments, manufactures of metal, food items, plastic and linoleum products, paper and paper products, rubber manufactured items, yarns and textiles, machine tools, glassware, cosmetics and electronic goods. India’s annual imports from Ethiopia had been averaging around US$ 1 million till 1999-2000. In 2007-08, these increased to US$ 13.6 million. During 2007-08, major imports by India from Ethiopia were: raw hides and skins, pulses, raw cotton, spices, leather and scrap metal. (www.africa-business.com)

A Trade Agreement between the Government of India and Ethiopia was signed on March 6, 1997 at New Delhi during the visit of Prime Minister Meles Zenawi and it set up a Joint Trade Committee (JTC). Meeting of the first JTC was held in Addis Ababa on February 25-26, 1998, while the second JTC was hosted in New Delhi on March 21-22, 2001. The third JTC was held in Addis Ababa on July 1-3, 2002, whereas the fourth JTC was held in New Delhi on 5th June 2006. In pursuance of the agreement during the 4th JTC meeting, delegations from CHEMEXCIL, IL&FS and NIIT visited Addis Ababa in September 2006 and a

India-Ethiopia Joint Trade Committee Meeting was held in Addis Ababa on 7th October, 2008, the Indian delegation was led by H.E. Shri Jairam Ramesh, MOS (Commerce & Power), the delegation included the representatives from ILFS, EXIM Bank, TCIL, ECGC, IRCON, KEC International, Kanan Devan Hills Plantations, BHEL, NIIT, Tata International Limited and Sanik Coal Mining PLC. The two sides reviewed the progress of bilateral trade and implementation of the 4th JTC Meeting, explored new areas of cooperation and discussed ways and means of further enhancing trade and technical cooperation between the two countries. The areas of cooperation identified were telecommunication, agriculture, water resources, pharmaceuticals, chemicals & allied products sector, textiles, leather, education, science & technology, IT, Power, energy & infrastructure projects, renewable energy, standardization, quality assurance, accreditation and metrology. At the end of the meetings the two sides signed Agreed Minutes of the fifth India-Ethiopia JTC Meeting and the 6th meeting of JTC will be held in New Delhi in the year 2010. (www.africa-business.com)

A bilateral Investment Promotion and Protection Agreement (BIPPA) were signed on July 5, 2007 during the visit of H.E. Mr. Pranab Mukherjee, External Affairs Minister to Ethiopia to strengthen the two countries relation in the economic and investment areas. The first round of Double Taxation Avoidance Agreement (DTAA) negotiations with Ethiopia was held in New Delhi on 24-28 July 2006 and it will be concluded very soon. During the India-Africa Forum Summit, the Prime Minister Dr. Manmohan Singh announced the Duty Free Tariff Preference Scheme (DFTP) for LDCs. Ethiopia was among the first countries that have acceded to the DFTP Scheme. There are various bilateral and commercial agreements which have been signed between the two countries.
(www.africa-business.com)

3.9. Technical assistance between India and Ethiopia
An Exhibition-cum-Seminar on Innovative Building Materials and Construction Technologies for Sustainable Housing took place in April 2008 at Ethiopian
Conference Center, Addis Ababa organized by the Embassy of India in collaboration with the Ministry of Housing & Urban Poverty Alleviation, Government of India and the Ministry of Works and Urban Development, Government of Ethiopia. The Exhibition showcased the commercial viability of manufacturing technologies of composite building material and machinery developed in India for production of building materials components for housing with the use of agro industrial waste and natural fibers. (Reports on Bilateral Relations between India and Ethiopia, 2008)

This Exhibition was a practical manifestation of the expanding partnership between India and Ethiopia. At a special symposium to enhance business relations between India and Ethiopia, the Ambassador of India H. E. Mr. Gurjit Singh said that we have to ensure that the economic growth should be implemented in a sustainable manner utilizing local rather than imported resources, providing not only cost effectiveness but a harmony with Mother Nature. Environmentally friendly and energy efficient technologies and related sustainable production of building materials and components to cater to the huge housing demand is the need of the day. (Government Reports on Environment of Ethiopia and India, 2008)

H.E Dr. Harjit Singh Anand, Vice Minister, Ministry of Housing and Urban Poverty Alleviation, Government of India said that this seminar will evolve appropriate strategies and action plans for identification, adoption and adaptation of emerging technologies to address the problems of housing. The keynote address was delivered by H.E Mr. Arkebe Oqubay, State Minister of Works & Urban Development, Government of Ethiopia in which he outlined the need of cost efficient and high quality housing units to the low and middle income population in Ethiopia. Hon. State Minister emphasized that Ministry of Housing & Urban Poverty Alleviation of Government of India and the Ministry of Works & Urban Development of Government of Ethiopia will work together for the development and transfer of cost efficient building material technology. Many others presentations were made by Indian and Ethiopian experts on low cost housing during the symposium and more than 200 participants attended the symposium. (Reports on Bilateral Relations between India and Ethiopia, 2008)

3.10. Indo-Ethiopia co-operation in agriculture sector

Ethiopian peasants normally collect their main harvest known as the Meher. Paradoxical as it may appear; a major long-standing challenge for the survival and
livelihood of the Ethiopian peasantry has surfaced not only in years of drought and famine but also in years of bumper harvest or relatively above average volume of production. Ethiopia, currently, not only in times of poor harvest, but also in periods of bumper harvest, markets are seen penalizing poor peasants repeatedly. Surprisingly enough, no intervention is being exerted on the part of the government or the responsible federal and regional government authorities to correct the widespread domestic agricultural market imperfections. As a result, the widespread poverty amongst the Ethiopian peasantry increase and the consequent erosion of the asset base of farm households observed. The majority of (urban and rural) Ethiopian due to lack of alternative livelihood options, periods of poor agricultural harvest or drought faces malnutrition and hunger. In poor economies like Ethiopia, one major critical problem of the dysfunctional nature of agricultural markets is the lack of physical infrastructure facilities, storage facilities and major and feeder roads. Another problem is the lack of marketing information infrastructure on local and global markets, including the training and management expertise and dissemination mechanisms among the various actors, i.e., peasants and buyers, in the market. Thus, major impetus need to be given like:

- Building the major roads of the country and also feeder roads in producing regions,
- Develop the human capital,
- Develop marketing information tools from village to regional places,
- Build up central markets to enable better and quicker local and international market information analysis and dissemination,
- Integrate local market with global market penetration for better results.

(Kumar, S., 2004: 4)

The government should lay a clear agricultural marketing policy and the associated intervention mechanisms, including the designation of a public organization (sort of a grain board) that could play the economically and socially desirable task of absorbing, storing and properly utilizing the available surplus production. There is a need to safeguard the poor peasants from facing drastic falls in their producer prices. The government should study and reform its business licensing procedures, controls unhealthy regulations and provide basic requirements and contribute to better and highly efficient marketing channels in local and international marketing operations.
The local and international partners of development should be committed to poverty reduction, food security and development of Ethiopia. They should play a key role in supporting the development of a properly functioning national integrated agricultural production and marketing system. Their coordinated effort in this regard is quite invaluable as it significantly contributes towards meeting the challenging tasks of food self-sufficiency and food security in the country and relieves donors of their continued humanitarian responsibility of providing food aid to Ethiopia. Apart from the current practice, Ethiopian peasant requirements to be given the necessary support and advice to produce crops suitable to those geographical areas and generate demand for the produce in the local or export market. (Singh, Daleep, 1986)

Thus, the concerned government bodies, in cooperation with the local and international partners of development, should demonstrate high commitment and practical deeds by working towards enhancing the crucial role of well functioning agricultural markets. It will act as an incentive to a sustainable increase in agricultural production and making its traditional roles in facilitating national economic development. It is, therefore, mandatory to point out and stress areas where the government and the other partners of development should focus upon in building a dynamic agricultural marketing system. Joint venture projects were found to be relatively bettered implemented compared to wholly foreign owned projects. This might be attributable to the fact that while foreign investors strive to follow the delivery of equipment and machinery, their domestic counterparts follow the construction and other assignments in the country. (Singh, Harjinder)
Table 3.5: Approved FDI by Sector - Investment in Million Birr

<table>
<thead>
<tr>
<th>Sector</th>
<th>Approved Projects</th>
<th>Operational Projects</th>
<th>percent Share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Project Investmen t</td>
<td>Project Investmen t</td>
<td>Project Investmen t</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>128</td>
<td>5496</td>
<td>32</td>
</tr>
<tr>
<td>Agriculture</td>
<td>31</td>
<td>2711</td>
<td>4</td>
</tr>
<tr>
<td>Real Estate</td>
<td>10</td>
<td>2519</td>
<td>0</td>
</tr>
<tr>
<td>Hotel and Tourism</td>
<td>8</td>
<td>236</td>
<td>1</td>
</tr>
<tr>
<td>Education Services</td>
<td>14</td>
<td>410</td>
<td>1</td>
</tr>
<tr>
<td>Health Services</td>
<td>12</td>
<td>263</td>
<td>0</td>
</tr>
<tr>
<td>Construction</td>
<td>32</td>
<td>1400</td>
<td>5</td>
</tr>
<tr>
<td>Trade</td>
<td>7</td>
<td>230</td>
<td>0</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>2</td>
<td>60</td>
<td>1</td>
</tr>
<tr>
<td>Others</td>
<td>32</td>
<td>590</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>276</td>
<td>13914</td>
<td>51</td>
</tr>
</tbody>
</table>


According to a diagnostic trade integration study of 2003, more sectors in the country are now open to foreign investors. However, those currently reserved for domestic private investors and the government is still numerous. Trade is still excluded from foreign direct investment (FDI). (Kumar, S., 2004: 5)

The agriculture sector is very important for India and Ethiopia. Ethiopians (85 percent) and Indian (70 percent) population are related to agriculture and there is a need to re-focus on agriculture. Both the countries have rich resources, good climate, water resources and Ethiopia is naturally known as the water tower of Africa. The concentration on agriculture along with industries requires a sustainable policy in Ethiopia. Mrs. Jordana Diengdoh-Pavel, the current Indian Ambassador to Ethiopia said, “Agriculture is very important for developing countries. In this country 85
percent of the people depend on agriculture and is the backbone of the economy. Agriculture was focused through five-year plan in India. Naturally, the state has to play an important role to protect industries from foreign competitions. We started from that and we came to this level. Today, the private sector is the backbone of the Indian economy and accounts for 70 percent of the GDP. Agriculture, horticulture, floriculture, sea food industries, agro industries, agro-based industries and food industries are in the private sector that includes small and large scale industries. India has almost 3.57 million units in the small-scale sector. They employ about 20 million people and contribute 165 billion USD to the Indian economy. The role of private sector is substantial in the growth of sustainable economic development. (Negash Kebret, 2001: 77)

The critical need for moving agriculture forward in Ethiopia is underlined by the need to increase food supply to feed a rapidly growing population, to provide employment, income growth to reduce absolute poverty and food insecurity for a predominantly rural-based population. Since Ethiopia has a large pool of unskilled labor, agricultural development can relieve the growing unemployment problem on the one hand and increase in agricultural income on the other hand. A ‘poverty focused’ economic development policy has best chance of success if it is agricultural-led, or if it is based on increasing agricultural productivity that result in food security and the reduction in absolute poverty. Since food security contains both supply (production) and demand (income) dimensions, there is a need to focus on food production. In this regard, a key policy research identifies the combination of technologies and institutions, which will aspires availability and access to food by local communities and regions in Ethiopia. The prime movers of agricultural development (public and private investment) need to involve in agricultural production and supply to ensure food availability. It includes Indo-Ethiopia investments on:

1. New technology and agricultural research,
2. Human capital and managerial skills produced by investments in schools, training, and on-the-job experience,
3. Physical capital investments in rural infrastructure such as irrigation, dams and roads,
4. Farmer support institutions such as marketing, credit, and extension services.

(Kumar, S. 2004: 7)
Ethiopia adopted an agriculture and rural-centered development strategy known as Agricultural Development-Led Industrialization (ADLI). ADLI focuses on the development of smallholder farm productivity and the expansion of commercial farms. One suggests the structure of cooperative farming like West & South India and Kenya may be implemented in Ethiopia. If successfully implemented, it has the potential to reduce food insecurity, absolute poverty and environmental degradation. Conceptually, an agricultural and employment based economic growth strategy has three basic elements like

1. Agricultural growth requires an appropriate land-saving technology in the form of biological and chemical technologies.
2. The growth in food demand occurs through accelerated growth in rural employment (or increased demand for labor), made possible through scientific agriculture and
3. Increase demand for goods and services produce. (Kumar, S. 2004: 7)

It is important to transform (like India agriculture) subsistence agriculture to science-based intensive agriculture by adopting promising indigenous practices combined with selective use of improved technologies such as inorganic fertilizer, better equipment, improved seeds, and improved soil conservation and agro forestry practices. Improved technologies and use of farm capital is the most promising path to achieve the goals of greater productivity, food security, and sustainability in most agro-climate zones. The capacity of farmers in Ethiopia to pursue alternative technologies requires Indo-Ethiopia investments in rural infrastructure, input and output market improvements, land markets, credit policy and promotion of non-farm enterprises such as agro-industry. The challenge is to develop innovative, cost-effective public, private and public institutions (including NGO’s) that support agriculture under a favorable and macroeconomic and institutional environment. (Kumar, S., 2004: 7-8)

The challenge for eradicating absolute poverty in Ethiopia is best achieved by pursuing an economic growth strategy that transforms the currently low productivity agricultural sector. This challenge can be met by developing Indo-Ethiopia institutions that promote the four prime movers of agricultural development like:

1. Production of appropriate technologies- produces through public and private investments in agricultural research;
2. Human capital investments and vocational skills of poor people by investment in private and public schools, training programs, on-the-job experience and health;
3. Investment in infrastructure like dams, irrigation facilities, telecommunications and roads; and
4. Investments in farmer support institutions such as marketing, credit, fertilizer, and seed distribution systems. Each of the above movers is important and complementary.

The contribution for the Indian community is very important. The Indian community living here contributes a lot to the economy of the country. Large number of Ethiopians is going to India for education, business, tourism etc. This contact between the two peoples is a great contribution for the enhancement of the relation between the two countries. India has managed to develop a modern agricultural sector within a short period of time. How can Ethiopians share our agricultural experiences in this regard is mentioned in the India’s offer.

3.11. Foreign Direct Investment
Foreign direct investment plays a vital role in pushing up economic growth rates in both developed and developing countries. It also contributes to transferring advanced technology to host countries, and stimulating local market competition. Moreover, it provides more training chances, and creates job opportunities. Accordingly, this leads to developing human capital in host countries, optimizing the use of available resources, and accelerating their integration into international markets. However, recent studies find some potential risks associated with the increase in FDI, especially if these investments exceed the capacity of the host country. An increase in FDI reflects the weakness as well as the strength of the country’s institutions. Therefore, encouraging this type of investment needs great caution as it requires thorough and careful studies that take into consideration the specific needs and capacity of each country. Foreign Direct Investment (FDI) from developing countries has risen sharply over the past two decades. This has been noted by several authors since the early 1980s (Lall, 1983; Kumar, 1995; Page 1998; Aykut and Ratha, 2003, and UNCTAD, 2004). Most FDI has been by Asian firms establishing footholds in other Asian countries but there has also been investment in developed countries such as the EU. (www.ccbp.biz/reform-fields/) (Appendix: VII)
Total investment by developing countries began to rise from about 1 percent of total foreign investment flows in the late 1970s to 4 percent in the mid 1980s and 6 percent by 1990, and after a peak in the 1990s before the Asian crisis, has remained around 6-7 percent of the total. The rise coincided with the reduction in the large differential between developing and developed country growth found in the 1970s and with a reduction, in some cases a reversal, of relative protection in developed and developing countries (revival of protection in the developed countries; liberalisation in the developing). It also coincided with some reduction in the growth of outflows to developing countries, suggesting that the same influences were affecting flows in both directions. South-South flows are estimated (as residual and noting challenges to have risen from 5 percent in 1994 to 30 percent in 2000 of the total FDI inflows to developing countries, see Aykut and Ratha (2003). With the exception of South African investment, there is little FDI stemming from Sub-Saharan Africa. Accordingly, little has been written about African outward FDI. African investment is still only 0.2 percent of the total, and only about 3 percent of total developing country foreign investment (UNCTAD WIR 2004). Although Africa in total has a share of inward investment in total capital formation which is only slightly below average for developing countries, the ratio of outward investment to capital formation is low. Some transnational companies have begun to emerge in developing countries, and they now account for about 7 percent of the total TNCs (UNCTAD WIR 2004). But again the chief investors are Asian (East and South), plus Brazil. Only South Africa has some companies represented among the top 50 developing country companies (www.nationsencyclopedia.com).

Ethiopia received African FDI worth US$145 million over 1993-1998, 11 percent of the total. Most came from the Middle East (66 percent) and EU (16 percent). Unlike other investment, African investment in Ethiopia takes the form almost exclusively of wholly owned subsidiaries rather than joint ventures. Its outward investment was 2.3 percent of gross capital formation in 2003, slightly above the average. In the last 4 years its investment from other African countries has risen from virtually to an estimated 10 percent in 2000. Kenya is involved in five investments; the Sudan in three; South African firms in two; and Libya in one. Asia and developed countries remain more important. Its Commercial Bank has started to invest in neighbouring countries. It is one of the poorest countries in Africa, and its total national income is also low, in spite of its large population, but it has grown
more rapidly than the average in recent years. It has BITs with 18 countries, of which 4 are African, Sudan, Algeria, Libya, and Tunisia. In 2003-4 it relaxed restrictions on the private sector in some sectors and improved information for foreign investors. (www.odi.org.uk/resources)

Taking advantage of the African nation’s stable political system, improved infrastructural facilities and satisfactory law and order, about 500 Indian companies have been doing brisk business in Ethiopia for the past several years and their total investment crossed five billion US dollars mark last year. This was stated here today by Ethiopian Ambassador in India Gennet Zewide while participating in an interactive session with members of the city’s premier Merchants’ Chamber of Commerce (MCC). Claiming that the climate of Foreign Direct Investment (FDI) in Ethiopia was very conducive to Indian business community in particular in the wake of the long standing relations between the two countries, Ms Zewide said following the success of the 500-member ‘India Business Forum’ in Ethiopia, many more Indian corporate sectors had desired to come and set up business ventures in the East African nation. (www.odi.org.uk/resources)

Keeping in mind the growing interest of the Indian business community to come and invest in Ethiopia, the country’s national Airline – Ethiopian Airlines – is now actively considering not only increasing the number of direct flights to Addis Ababa from New Delhi and Mumbai, but also wanting to bring Chennai and Bangalore under its map soon, she said. Moreover, if the airlines get enough passengers from Eastern India, they might also consider to start a new Kolkata-Addis Ababa direct flight soon,” she emphasised replying to a related query later.

Highlighting the ‘advantages’ of investing in various sectors in Ethiopia, recently rated by the World Bank as the fastest growing economy of East Africa, with a smart PowerPoint presentation, the envoy said apart from Information Technology, agro products and leather related products, more joint sector investment was welcomed in textile, tea, infrastructure, mining and power plants besides chemical and pharmaceutical products. She also underscored the need for further growth in bilateral trade, presently tilted very much in favour of India. As the total volume was presently hovering around 300 million US dollars per annum, it needs to be increased manifold,” she asserted. Despite registering nearly 17 percent increase from the previous years, the volume of Indian export stood at 201 million US dollars last year, while import from Ethiopia in terms of raw hides, goat skins and some edible...
vegetables, was aggregated to the tune of about 91 million dollars, do business in Ethiopia. (www.nationsencyclopedia.com)

1. Ethiopia becoming major centre for Indian investment
2. Ethiopia woos Indian industrialists to invest
3. Indian investment to Ethiopia reaches 5 billion USD
4. In Ethiopia, Indian fellowship and teachers spread education
5. Ethiopia woos Indian hospitals to set up branches

India and Ethiopia have substantiated their long standing friendship by enhanced economic cooperation. This consists of growing bilateral trade, greater investment by Indian companies in Ethiopia and participation by Indian companies in the infrastructure development. As a follow-up to these multi-faceted and strong economic and business engagements, the Embassy of India organized a special workshop on the Economic Policy of a Developing Country in a Globalizing World for Parliamentary Standing Committee on Trade & Industry House of People’s Representatives in November 2007. All the 20 members of the Parliamentary Standing Committee on Trade & Industry House of People’s Representatives were attended this workshop. (WTO, UN Reforms and Climate Change, 2008)

3.12. Recent initiatives in Indo-Ethiopia Economic relations

India’s relations with Ethiopia have been traditionally close and friendly and have not been affected by political changes in Ethiopia. Successive Ethiopian regimes have been appreciative of the fact that India has never been hostile to Ethiopia’s interests. Ethiopia has been consistently supportive of India’s position on various issues in the global arena. There is positive alignment in the views on cross-border terrorism as well as other issues sensitive to India such as expansion of UNSC, Kashmir issue etc. Ethiopia greatly appreciates India’s understanding of the problems of the countries of Africa, its support to their economic development and sensitivity to their needs. Ethiopia admires India’s economic, social, scientific and technological achievements. It has identified Indian Institutions for training of their nationals in the fields of agriculture, small industry, transportation, higher education, banking, health, engineering etc. (Negash Kebret, 2001: 77-89)

Seeking to "rediscover" their relationship, India and Ethiopia signed an agreement to promote bilateral investments and decided to increase coordination on critical global issues like UN reforms. Addis Ababa backed New Delhi’s claim for a
permanent seat in the expanded Security Council as a "legitimate" demand as India sought Ethiopia's cooperation to ensure "marrying" of positions of 53-nation African Union and G-4 (Group of four that includes India) on the UN reforms issue. After wide-ranging discussions between External Affairs Minister Pranab Mukherjee and his counterpart Seyoum Mesfin, the two sides emphasised the need for enhancing cooperation in a variety of areas. They decided to cooperate with each other in various international fora and as far as possible to have the common approach on international issues including the current trade negotiations, economic cooperation, and climate change. The two sides signed five pacts, including the Bilateral Investment Promotion and Protection Agreement (BIPPA). This will facilitate the Indian public and private sector companies to invest more in Ethiopia. (Government Reports: Addis Ababa, 2006)

The largest ever Indian economy exposition took place at the Millennium Addis Chamber International Trade Fair. More than 30 Indian companies were participated and Confederation of Indian Industry (CII) and Indian Trade Promotion Organization (ITPO) organized it. This large participation was a practical manifestation of the expanding economic partnership between India and Ethiopia. Mr. Eyesuswork Zafu, President of Addis Ababa Chamber of Commerce and Sectorial Associations specifically recognized this at the inaugural ceremony in February 2008 in presence of the Minister of Trade and Industry, H.E Mr. Girma Birru, Mayor of Addis Ababa, Worship Mr. Berhane Deressa and other dignitaries. The dignitaries later visited all the Indian participants during a visit to the fair and they commended the businesslike approach and at diversity of business opportunities offered by the Indian participants. (Reports on Bilateral Relations between India and Ethiopia, 2008)

On February 22, 2008 "India Day" was held at the Cinema Hall of the Addis Ababa Exhibition Center. At a special symposium to enhance business relationship between India and Ethiopia the Ambassador of India, H.E Mr. Gurjit Singh said that this was the flagship event on the business side to mark the 60th anniversary of establishment of diplomatic relations between India and Ethiopia. Encouraging remarks for promoting India Ethiopia relations were made on the occasion by the Economic Advisor to the Prime Minister, H.E Mr. Neway Gebre'ab, State Minister of Trade and Industry, H.E. Mr. Ahmed Tussa. And on behalf of the private sector encouraging positive remark for the participants was made by the President of Addis
Ababa Chamber of Commerce and Sectorial Associations, Mr. Eyesuswork Zafu. Mr. Gurpal Singh, Deputy Director General, Confederation of Indian Industry (CII) who spoke on behalf of the Indian companies and gave an overview of the growing importance of the Indian economy and the roll of the private sector also addressed the symposium. The dignitaries at the “India Day” later visited all Indian participants at the fair ground and interacted with them regarding business opportunities in Ethiopia. (Reports on Bilateral Relations between India and Ethiopia, 2008)

At the concluding function on 26th February 2008, India was given the prime recognition among all foreign participants and an Indian company Lucky Exports won the third prize among all stands. Prior to the event, the Embassy had taken out several advertisements in the local papers, both in English and the local, Amharic, giving details of the India Day symposium asking people to register for one-to-one meetings and advertising names of the Indian participants in the Indian pavilion. This assisted Embassy in getting business to business meetings planned in advance for the Indian participation. (Reports on Bilateral Relations between India and Ethiopia, 2008)

India and Ethiopia have substantiated their longstanding friendship by enhanced economic cooperation. For strengthening the cooperation between the Regional States of Ethiopia and India, the Embassy of India took the initiative to bridge the information gap between business sectors by trying to bring businessmen together on common platforms and through increased exposure to each other’s market as the rapid expansion of both the economies has led to emergence of new capabilities and requirements. Currently the dimension of economic cooperation covers the widest possible spectrum. As a follow-up to these multi-faceted and strong economic and business engagements, the Embassy of India organized the 2nd Regional Symposium on “Doing Business with India” held at Regional Management Institute in on 3rd December, 2007. The Southern Nations, Nationalities and Peoples’ (SNNPS’) Regional State authorities including office of the President, Trade and Industry Bureau, Investment Bureau and Awassa Chamber of Commerce & Sectorial Associations assisted in organizing it. The Indian delegation was led by H.E. Mr. Gurjit Singh, Ambassador of India and included a nine-member Indian business delegation. Approximately 80 business persons from SNNP’s Regional state attended the symposium. (Government Reports on Economic Relations between Ethiopia and India, 2008)
3.13. Impact of globalization on Indo-Ethiopia economic relations

Globalization is shaping a new system of international economic relations in the fields of investment, production, trade, finance or technology. The canvas of globalization, however, is very vast as it means different things to different people. The wider view equals globalization with the notion of Vasudhaiv Kutumbakam (the whole world is one family) and the narrower economic interpretation with increasing the ratio of foreign trade and investment in a country’s output. On a philosophical plane, India has been a votary of globalization since ages. Globalization, however, refers to a process of deepening economic integration, increasing economic openness and growing economic interdependence between countries in the world economy.

This process is driven by the lure of profit, and the threat of competition in the market. The Second National Commission on Labour, while quoting the Human Development Report of South Asia, 2001 has defined globalization as: The free movement of goods, services, people and information across national boundaries. It creates and, in turn, is driven by an integrated global economy, which influences both economic as well as social relations within and across countries. The opening up of the economy increases competition internationally as well as externally, leads to structural changes in the economy, alters consumer preferences, life styles and demands of citizens” (NCL, 2002). The definition of globalization with intellectual rigour not withstanding globalization has been viewed quite differently from the individual perspective. A few such opinions recorded during the dialogue on Social Dimension of Globalization (ILO, 2004) provide interesting insights: In India economic reform process got accelerated after 1991. In 1991, the country’s GDP growth rate had dipped to a snail-like 1.1 percent. In the years of Rao’s Prime Minister Ship, India has witnessed an average growth of 5.5 percent. Today, successive prime ministers have started calling for 7-8 percent growth. Other comparisons of the situation in 1991 and 2004 are more dramatic. (www.referenceforbusiness.com)

Many of the studies in Globalization and Poverty in fact suggest that globalization has been associated with rising inequality, and that the poor do not always share in the gains from trade. Other themes emerge from the book. One is that the poor in countries with an abundance of unskilled labor do not always gain from trade reform. Another is that the poor are more likely to share in the gains from globalization when workers enjoy maximum mobility, especially from contracting economic sectors into expanding sectors (India and Colombia). Gains likewise arise
when poor farmers have access to credit and technical know-how (Zambia), when poor farmers have such social safety nets as income support (Mexico) and when food aid is well targeted Ethiopia.

The evidence strongly suggests that export growth and incoming foreign investment have reduced poverty everywhere from Mexico to India to Poland. Yet at the same time currency crises can cripple the poor. In Indonesia, poverty rates increased by at least 50 percent after the 1997 currency crisis in that country and the poor in Mexico have yet to recover from the pummeling of the peso in 1995. (www.globalenvision.org)

3.14. Conclusion
With all the above mentioned facts and figures and details about the Economic relation between India and Ethiopia in the chapter, it becomes obvious that the cooperative relation between both the countries, which is based on mutual respect and benefit is a classic example of “South-South cooperation.” Both the countries share common values, common views on most of these issues. Economic and trade relationship between the two nations has shown significant progress but more needs to be done in order to further exploit the potentials for much more expanded cooperation. Both countries had established a joint trade committee and joint business council besides entering into several commercial bilateral treaties over the years with an aim to increase trade ties. There have been excellent political, economic and cultural relations with Ethiopia and tremendous efforts have been made to strengthen the relationship and expand cooperation in all the fields. Ethiopia has benefited a great deal from India's support in capacity building and technology transfer. Ethiopia has steadfastly supported New Delhi in its bid to become a member of the expanded UN Security Council. It also believes India will exert its effort in making sure that Africa, the only continent unrepresented in the UN Security Council permanent seat, will be fairly given its share so that the continent would contribute to world peace and stability. India and Ethiopia have agreed to establish a joint ministerial commission that will help address issues contained in pacts already signed and decide on all future bilateral co-operations. The links between the countries are not of contemporary period but these links go back to the days of history. It is a civilisational link. Over the years, the relationship has gone through different phases but never has there been an occasion that there is lack of enthusiasm, understanding
each other and lack of spirit of cooperation with each other. Therefore, the economic relation between India and Post Socialist Ethiopia is a great achievement in the sense that both the countries have been able to rediscover the areas of cooperation in other sectors also.

Beyond the economic co-operation between the countries, efforts have been made by the Indian professors and experts in promoting people to people relations. This people to people relation will help in building peace and stability in both the countries so that the violence and killing of innocent people could be stopped. India is playing a critical role in many ways in Africa, in the context of the South, and particularly in Ethiopia. Apart from the economic and bilateral relations, India have exchanged views on important regional and international events, including cross-border terrorism, which is going to be the biggest menace to peace and tranquility in the post-cold war era and which is the biggest violator of human rights. Both India and Ethiopia, decided to cooperate with each other in various international forces and as far as possible to have a common approach on international issues including the current trade negotiations, economic cooperation, climate change.

The Minister’s visit to Ethiopia and from Ethiopia to India has given us ample opportunities to touch base on issues of mutual interest - bilateral, regional and international. Both the countries have registered a common vision, common policies and direction on the issues. They have also committed to continue building on the longstanding all-weather relationship. Seeking to buttress on solid institutional framework the long-standing and excellent relations, the two sides have made pacts establishing a Joint Ministerial Commission and a Protocol on Foreign Office consultations. A Joint Ministerial Commission between India and Ethiopia have been signed between the Ministers which covers number of sectors and provide a legal framework for cooperation in many areas, especially in economy. The agreement that have been signed is for establishment of the promotion and protection of investments. This will facilitate the public and private sector, the vibrant Indian private sector, to invest in Ethiopia.

The other agreement that have been signed by India and Ethiopia is in the field of science and technology. Both sides are hoping to benefit, through this agreement. India has also signed an exchange programme in the field of education which is a lynchpin of the cooperation between the two states. An Ethiopian generation has gone to schools taught by Indian teachers. India is a centre of excellence in many ways and
many Ethiopian youth and professionals are benefiting from it. India has also signed a Protocol of consultations between the two ministries. This would enable the ministries as coordinators of sectors, to continuously and regularly consult with each other on issues of bilateral, regional and international importance. Ethiopia can, and must, benefit from India's democracy. India, as we all know, is the largest democracy in the world, not only the largest, but a vibrant, pluralist democracy. Not only that, but (India is) the largest democratic federated state. Ethiopia can benefit and learn from the experience of India. This is a unique opportunity, which would bring Ethiopia and India to further consolidate their friendly ties. The significance of the protocols that India has signed will provide the institutional framework on which both the countries will build up excellent relationship. The objective is to expand it, to deepen it, share each other's experiences and expertise for the benefit of the people of these two great countries.