IDEAS Sessions at the First International Conference on the Ethiopian Economy organized by the Ethiopian Economic Association at Addis Ababa from January 3-5, 2003

International Development Economics Associates (IDEAS) held two plenary sessions at the First International Conference on the Ethiopian Economy convened by the Ethiopian Economic Association (EEA) from January 3-5, 2003 at the United Nations Conference Center (UNCC), Addis Ababa. Around 500 people attended the conference, and the participants came from diverse backgrounds. There were economists, people from the private sector of Ethiopia and the Ethiopian Chamber of Commerce, Ministers and people from the Ethiopian Government, representatives from several foreign embassies located in Addis Ababa, as well as people from the World Bank, those from NGOs, and from the United Nations Economic Commission for Africa.

Professor K.S. Jomo, Member of the IDEAS Executive and Professor Abhijit Sen spoke in the first plenary session that took place on the morning of January 3, 2003 immediately after the inaugural session. Thandika Mkandawire could not be present, but he sent a paper to be presented at the conference.

In his presentation on the lessons that Africa may learn from the East Asian crisis **Professor K.S. Jomo** mentioned that the East Asian crisis has put an end to the optimistic picture that the World Bank tried to paint about the region's economy. Even South Korea, one country hailed as a success story, had been actually carrying out financially repressive policies, and could never be cited as a country carrying out financial liberalization. Dependence on FDI has weakened industrial capabilities in Southeast Asia. Financial interests have been more dominant in the region. South Korea was so keen to get entry into the OECD that it bent backwards as regards financial liberalization, and this led to its own vulnerability.

Jomo also spoke about the 'virtues' and dangers of openness. The terms of trade arguments of Prebisch and Singer, given more than 40 years ago, are relevant even today. The terms of trade have moved against primary commodities and generic products which are not protected through Intellectual Property Rights (IPRs). While there is some truth in the claim that those running governments in African countries do usurp lots of public money, this is not the main reason for the immiserisation of African nations. Capital flight from Africa has always been greater than Official Development Assistance (ODA) to Africa. Most of the FDI that comes into Africa is for the exploration of oil and other mineral resources, and for mergers and acquisitions.

Thandika Mkandawire's paper on 'Economic Development in Africa: From Adjustment to Poverty Reduction, What is New?' discussed how, during the last two decades, liberalisation of trade, privatisation and reliance on markets have replaced the widespread state controls associated with import substitution in Africa. However such changes have failed to act as even a prerequisite for development, let alone as a 'strategy for accelerated development'. The key 'fundamentals' such policy changes have sought to establish relate to these financial concerns rather than to development. The Structural

Adjustment Programme, due to its deflationary bias, has placed African economies on a low growth trajectory. The "low-growth" path that the BWIs have placed African economies on, and the one they seem to have resigned to, will not only lead to Africa's greater "marginalization" but will deepen poverty in African economies. So while the threat given to developing countries is 'globalize, or get marginalized', it is actually the opening up of their economies that is marginalizing and impoverishing African nations.

Professor Abhijit Sen, in his presentation on the UNCTAD report, said that the UNCTAD Report on 'Economic Development in Africa' has raised concerns about poverty. It states that there has been a marked change in the functioning of International Financial Institutions (IFIs) as well. There is now some recognition that conditionalities imposed by the IFIs have gone beyond their proper areas of competence. They are now putting emphasis on poverty reduction rather than on stabilization and structural adjustment. Sub-Saharan Africa (SSA), being resource-poor, need additional financing as private investment is not expected to come to these countries except for exploiting natural resources. The other worrying aspect is that the official debt burden of countries in SSA is now about 3 per cent of the combined GDP. Under the HIPC initiative only a part of this debt is eligible for relief, that too for some of the indebted countries. The UNCTAD Report calls for a fresh and bolder approach to remove the debt overhang of the world's poorest countries.

As for the growth versus poverty reduction debate is concerned, Professor Sen felt that beyond a certain point, poverty reduction would not be possible without growth. Without any substantial growth of the economy, efforts to reduce poverty may lead to a process of 'levelling downwards'. However, growth can actually be achieved in several ways. The orthodox policies of the IFIs would create more problems for the African nations than they solve. The macroeconomic contractionary strategies that the IFIs have recommended will further strangle the demand-constrained economies of Africa. Withdrawal of the state from providing basic services will put education and health care out of the reach of Africa's poor.

The Poverty Reduction Strategy Papers (PRSPs) are supposed to be produced by the respective countries in consultation with civil societies to reflect what the countries need. However, in reality, the PRSPs look like documents written to satisfy the demands of donor agencies and countries, suggesting macroeconomic packages detrimental to the interest of the developing countries. While these packages are obsessed with bringing inflation down, inflation today is hardly a concern, more so for Africa. The world today is rather in a deflationary stage. But because the donors believe that inflation is the worst thing that may happen, conservative monetary policy has to be pursued by African nations.

Lack of good governance and institutional reforms have often been blamed for the miseries of Africa. This has led IFIs to imposing governance related conditionalities. However, the IFIs have always looked at corruption in public offices, while letting the private sector go scot-free. The reasons behind Africa's immiserisation are inadequate

external financing and protectionism in industrialized countries, and not lack of governance, as the IFIs would like us to believe.

On the second day IDEAS held another plenary session at the EEA Conference. In this session **Professor Abhijit Sen** talked on 'Agricultural Production, role of the State and Liberalisation: Lessons from India'. He started by outlining why productivity suffered during the British period. After independence the actual cultivators were given tilling rights, but the landless labourers got nothing. The government stepped in to raise productivity in agriculture. Production increased 65 per cent between 1950 and 1965 and this was fairly well distributed over regions. But most of the growth was through area increase rather than yield improvement. Besides, foodgrains production increased less than overall crop production, only by 36 per cent during 1950-65. Since population increased by 33 per cent during this period and per capita incomes rose, food demand exceeded supply leading to high imports. To add to the misery famine like conditions prevailed in 1966, following drought.

The introduction of the Green Revolution technology raised production of foodgrains and eased the dependence on food imports. However, the technology could be adopted only on irrigated land. Nevertheless cereals production increased nearly 75 per cent between 1971 and 1990, even as crop area shifted to non-cereals allowing non-foodgrain production to also double during the period. However, all that changed with the reduced role of public expenditure in Indian agriculture once India accepted the structural adjustment and stabilization packages of the World Bank and the IMF. Growth of foodgrains output in particular has dipped; unemployment has increased, leading to a lowering of purchasing power; and even as grains are being stockpiled, many are facing acute shortage of food.

Land reforms matter but technology adoption matters more. Today the need is to bring strengths in finance and Information Technology to the aid of Agriculture and Rural development, which have suffered a lost decade. And small farms in particular will need state support if they are to adopt new technology. It is true that state support can be abused by vested interests. However, liberalisation is not going to correct this failure, and would add to the miseries of poor farmers.

Professor Madhura Swaminathan talked about the impact of liberalization on food security in India. She spoke about why and how independent India devised and implemented its food security system, and now that it is being dismantled under the structural adjustment regime, how the poor in India, a country which belongs to the same category as 14 sub-Saharan African countries do in respect of the prevalence of undernutrition, would get adversely affected. In January 2001, in the Committee on Agriculture, India made a proposal for a "food security box". Such proposals need to be strengthened and taken forward by an alliance of developing countries.

Overall the sessions left a positive impact on the audience, and economists from Ethiopia outlined the need to interact more with countries like India and other developing countries, rather than simply to try to implement western economic prescriptions.