

International and Domestic Sources of State Stability and Regime  
Collapse: Merchant Capital in Ethiopia, 1974 - 1995

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## **Abstract**

This thesis is an analysis of the interrelationship between international and domestic determinants of state action in Ethiopia in the period 1974 - 1995. It uses an historical materialist framework to show that the Ethiopian state acts to further the interests of domestic merchant capital, and that continuities between successive regimes express a deeper underlying continuity in the structures of the social formation. It discusses the ways in which land reform further entrenched peasants in their existing conditions of production, in response to which the Derg regime undertook to extend state interventions in trade. State involvement in trade has been crucial to the ability of successive regimes to preserve and expand state structures. The alliance with merchant capital which underpinned the state's role in trade explains the decision to nationalise industry. Nationalisation led to a decline in industrial production to the benefit of domestic merchant capital. However the dominance of merchant capital exists alongside low-levels of capital accumulation which renders the state dependent on external alliances and therefore makes regimes highly susceptible to changes at the international level. The low-level of development of the productive forces has retarded the integration of Ethiopia and strengthened regional identities. The resulting fragmentation of power has been an enduring theme of Ethiopian politics. These continuities in underlying structures have contributed to continuities in regime action at the level of the degree of state penetration, the formation of state revenues, and the military basis of regime legitimacy. Finally, it suggests that the model offered here, of a state supporting a domestic merchant class, may be useful in explaining the relationship between states and classes elsewhere in sub-Saharan Africa.

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Map of the administrative divisions of the

Peoples Democratic Republic of Ethiopia

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## **Glossary**

*Balabat* local nobility in south Ethiopia.

*Derg* (Committee) the government of Ethiopia under Mengistu Haile-Mariam.

*Rist* title to land.

*Gult* tribute extracted from rist-holders.

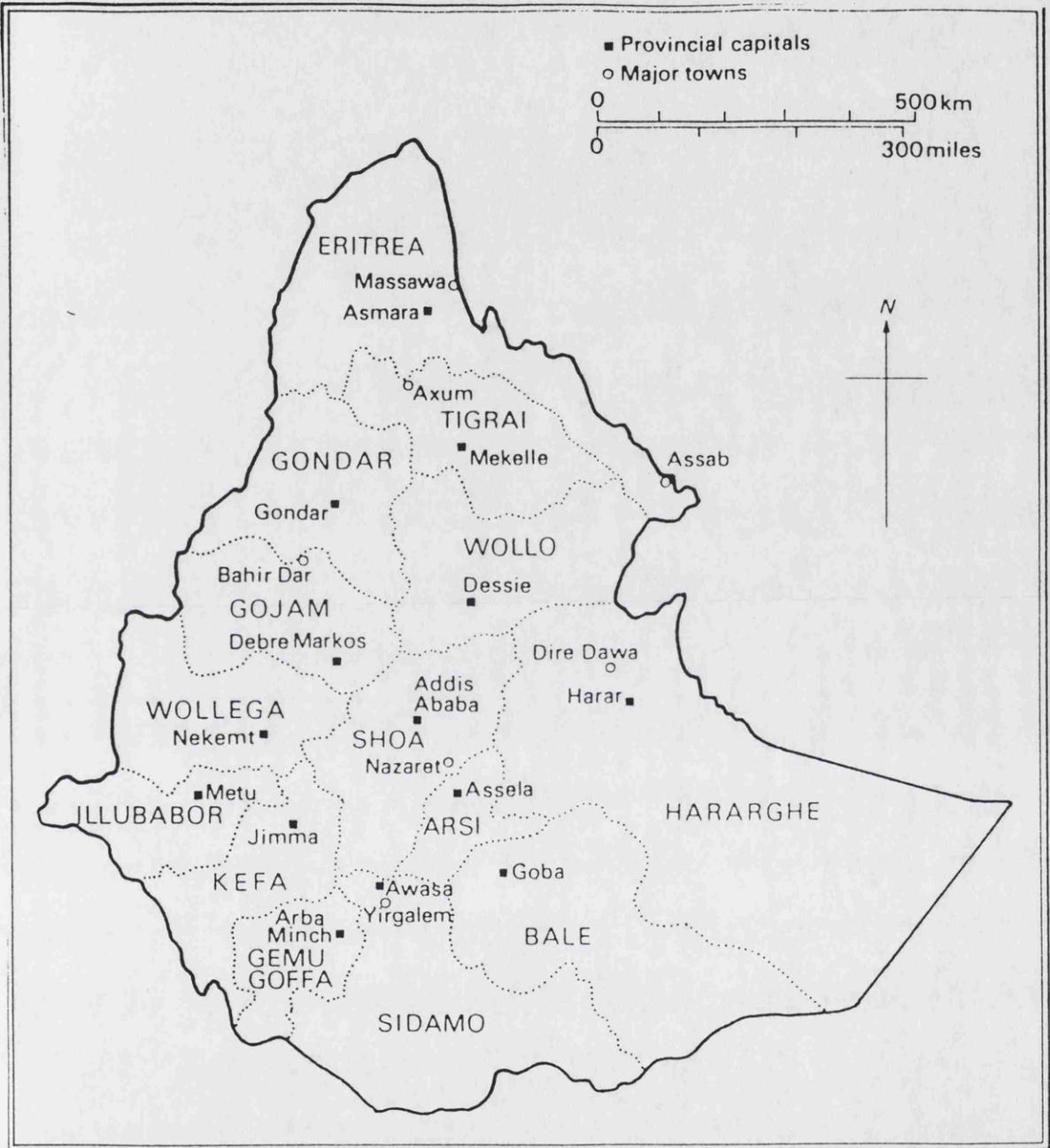
*Kebelle* district Urban Dwellers Associations.

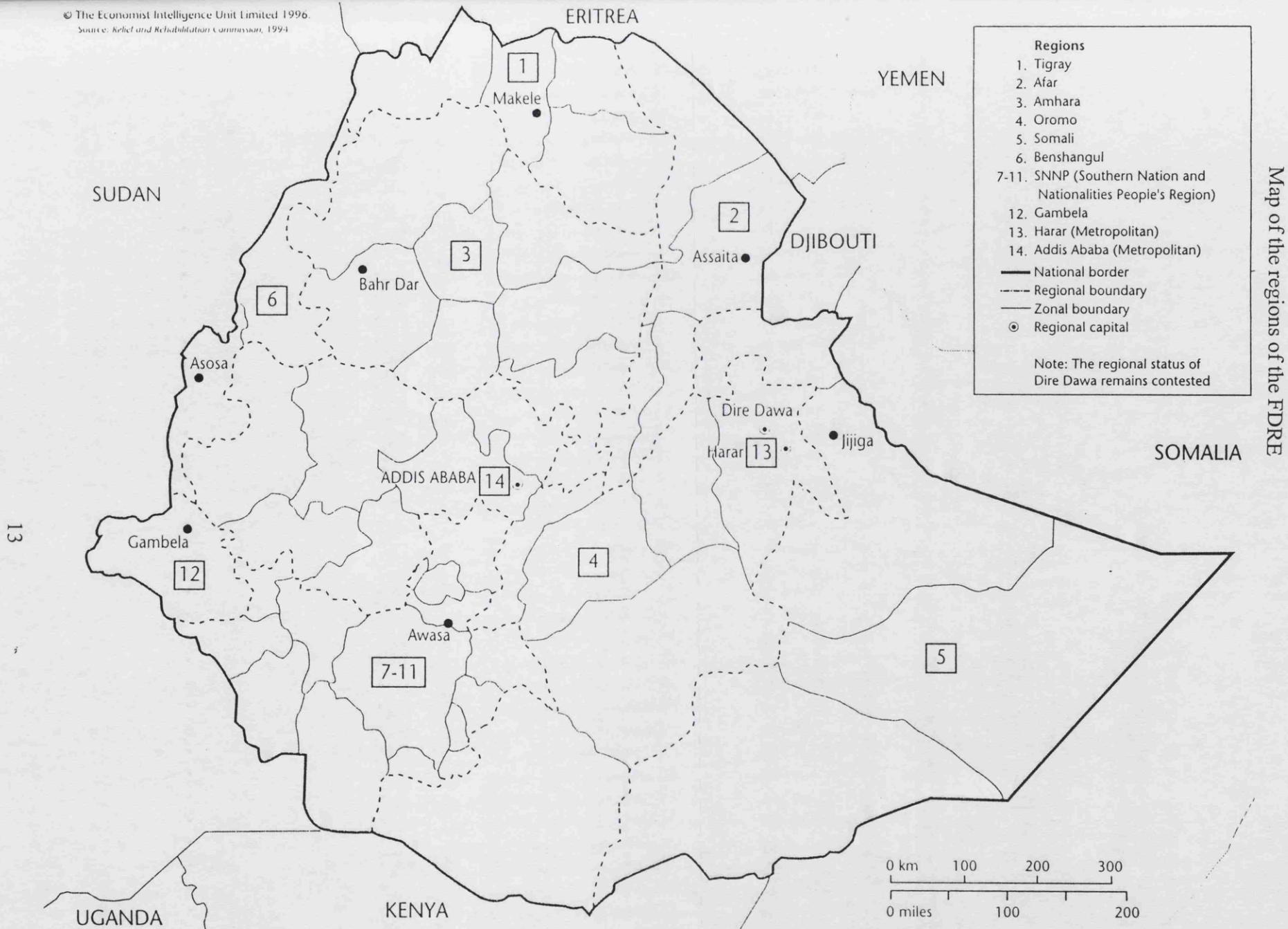
*Keftegna* higher Urban Dwellers Associations .

## **Acronyms**

AMC	Agricultural Marketing Corporation
ELF	Eritrean Liberation Front
EPLF	Eritrean Peoples Liberation Front
EPRDF	Ethiopian Peoples Revolutionary Democratic Front
FRDE	Federal Republic of Democratic Ethiopia
OLF	Oromo Liberation Front
ONLF	Oromo National Liberation Front
OPDO	Oromo Peoples Democratic Organisation
PDRE	Peoples Democratic Republic of Ethiopia
TGE	Transitional Government of Ethiopia
TPLF	Tigray Peoples Liberation Front
WPE	Workers Party of Ethiopia

Map of the administrative divisions of the PDRE





Map of the regions of the FDR

## Chapter One

### INTRODUCTION

This thesis is an analysis of the interrelationship between the international and the domestic in structuring state action in Ethiopia. It covers the two decades from the military seizure of power in 1974 to the 1995 elections. The purpose of the thesis is to explain the vulnerability of the state to changes in the international system by exploring the domestic roots of state power. In it I argue a case about the relation between the Ethiopian state and interests of merchant capital: this is that, despite divergences of intention and ideology, there is a coincidence of interest between the state and merchants in developing mechanisms for appropriating surplus from peasant production. The persistence of trading networks and the alliance between the state and dominant classes which they generate has been a crucial source of state stability. Furthermore, in so far as regimes have been successful in their pursuit of external support, their engagement with the international system has contributed to state stability by, in effect, underwriting the alliance between merchant capital and the Ethiopian state. However this alliance perpetuates the low level of development of the productive forces making external support a precondition for regime survival and conversely rendering successive regimes highly vulnerable to changes in the international system. Regime collapse has not been accompanied by state collapse because state structures are embedded in local centres of power. Merchants figure so prominently in this account because it is largely through their actions that surplus has been appropriated from the peasantry. These mechanisms of surplus-extraction in turn support and are supported by structures of state power.

In developing this argument I challenge the view that the state in peripheral social

formations is externally determined to the exclusion of domestic interests. I also implicitly refute the analysis of dependency theorists that it is the structure of the international political economy which blocks capitalist development in the periphery. In particular I show that merchant capital undermines attempts by regimes to secure industrial development and supports those regime actions which block the emergence of indigenous entrepreneurs, e.g. among petty-commodity producers. This argument is advanced within an historical materialist framework which explicates the role of merchant capital as a dominant (that is, a surplus-appropriating) class which is a core determinant of the character of state power and of regime actions.

#### Literature review

The existing literature can be classified into the literature on the pre-revolutionary period, that on the revolution and the policy and practice of the Derg regime, and the literature on the transitional government. The literature on the pre-revolutionary period (Gilkes, 1975; Clapham, 1969; Bahru Zewde, 1991; Markakis, 1974), broadly-speaking, focuses on Haile-Selassie, is pre-occupied with the problem of national fragmentation and with the contradictory impact which a limited degree of state-initiated modernisation had on the relationship between social groups and the state. The revolution is seen by more radical theorists as a crisis of feudalism (Bondestam, 1975; Markakis, 1974) while for others it was an attempt by an expanding petty - bourgeoisie to achieve political representation.

While this thesis is not directly concerned with the pre-revolutionary period, I do discuss the structure of production , foreign policy and approaches to the national question which prevailed under Haile Selassie. However my focus is on structural processes. I also argue that the degree to which there was a transformation of

production under the Haile-Selassie regime was very limited, although I do recognise the threat which industrial foreign capital posed to merchant capital. I attempt to explain the intervention of foreign capital with reference to the need for external resources and a new focus for state power with the diminishing importance of Kagnaw in Eritrea to the United States defence strategy in the Red Sea region. Given the limited degree to which capitalist penetration had taken place, I therefore dismiss the view that the revolution was a crisis of the transition from feudalism to capitalism.

Markakis (1987), Markakis and Ayele (1986), and Chege (1979) argue that the revolution was hi-jacked by the military who then used their monopoly of power to pursue an anti-peasant strategy of state capitalism or garrison socialism. In this view the reforms and the rhetorical commitment to socialism were attempts to secure the legitimacy of the Ethiopian Student Movement to whom the mantle of state power rightly belonged. It is a view which is, unsurprisingly, widely supported by domestic opponents of the regime. The alternative view agrees that the regime was in a confrontation with the peasantry, but argues that the military were the only section of society which were capable of taking power and dismisses the aspirations of the Ethiopian Student Movement (Clapham, 1988, Halliday and Molyneux, 1981; Tirench, 1993). It is these accounts which tend to argue that the regime was socialist, in as much as they established a command economy and pursued the goal of economic transformation on the Soviet model. Where the two views converge is in their explanations of land reform and nationalisation. For in these accounts as in the sectarian literature these reforms were a concession to the Ethiopian Student Movement and an attempt to broaden the legitimacy of the regime into the

countryside. Both these broad camps within the literature tend to focus on the veracity (or otherwise) of the Derg's claims.

By contrast, in this work I have taken the view that intentions are probably irrelevant and in any case unknowable and I have therefore attempted to explicate and analyse the character of the economy and society and its impact on international relations. It is clear that the peasantry secured real gains as a consequence of land reform even while being further entrenched in their existing mode of production. It is equally clear that the Derg was not a socialist regime by any criteria. A command economy is hardly the measure of socialism, but even were that point to be conceded the Derg's policy of establishing a command economy was never implemented in practice. Nor however, was this a totalitarian regime, and again, whatever its aspirations, the state simply did not have the capacity to be so. Finally, on the question of land reform and nationalisation, the analysis offered here gives an explanation of why the regime adopted reforms which is consistent with other dimensions of state action and the general character of the social formation. In the first place the explanation that the regime had no independent goals in relation to land reform and nationalisation, and simply capitulated to the ESM is unlikely given the subsequent ferocity with which it pursued the Red Terror. It is more plausible that land reform which halted any process of capitalist transformation of agriculture which was underway and entrenched peasants in their existing conditions of production did three things. Firstly, it reduced potential claims against the state from landless peasants and rural - urban migrants. Secondly, the deposition of Haile Selassie unsettled rural relations so that in some areas peasants began to seize land, a process which the Derg did not have the capacity to reverse and which landlords

were unable to resist. This weakness on the part of the landlord class can be explained by their transformation into state bureaucrats and traders which had preceded the revolution, and gained pace after the revolution. Finally, by halting the transformation of agriculture and blocking any further transformation to commercial farming it protected merchant capital against the incursions of industrial capital. Nationalisation complemented this move to halt the transformation of agriculture by expelling foreign industrial capital and expanding the opportunities from foreign trade which were available to domestic capital and the state.

The literature on the post-revolutionary transformation, once the Derg regime had consolidated itself, tends to argue that there was a substantial and deep economic and social transformation (Lynch, 1982; Griffin, 1992; Halliday and Molyneux, 1981; Ottaway, 1987; Stahl, 1989; Girma Kebede, 1992; Keller, 1988; Clapham, 1987; Makonnen Getu, 1987). In contrast I suggest that industrial capital diminished, agricultural production continued to be household production, that the Derg's interventions were in trade and not in production. The conclusion I draw from this explication of the economy under the Derg is that merchants were the, probably unintended, beneficiaries of regime action.

The literature on the new regime is mostly sectarian, pro-TPLF and argues that the regime is a democratic, emancipatory regime which will release the forces of peasant production and stimulate development. In contrast to which I argue that there are clear continuities between the Derg regime and the EPRDF. Furthermore I suggest that the character of peasant production, and therefore the remedies for under-development, are being viewed through an inappropriate frame of liberal economic theory.

In short, I argue that there are clear continuities between Haile Selassie's regime, rgw Derg, and the TGE, and I set out the material basis of these continuities. In particular, and so far as I am aware this is not addressed elsewhere in the literature, I place merchant capital at the centre of an explanation of state structures and regime action.

### Methodology

The research consisted of a literature review; documentary analysis of Ethiopian newspapers, government papers and party documents; in-depth, semi-structured interviews with ministers, civil servants, and country representatives conducted in Addis Ababa over a six-month period in 1995; analysis of economic data produced by the Ethiopian government, the IBRD and other multilateral agencies. In the literature review I examined the literature on Ethiopian politics and history, the Ethiopian revolution, treatments of the concepts of class and state in Africa, and on military seizures of power. I provisionally concluded from the review that the relationship between state and class would be crucial to developing an understanding of state action. The literature review suggested the contours of this thesis in its preoccupation with the fragmentation of state power, the low level of development of production, and the foreign policy goals of successive regimes. In the interviews which I carried out during my field work I used these broad themes in constructing the interview guides. Discussions with interviewees ranged around the three themes of economic policy, foreign policy and nationalism. The interview transcripts (see appendix one) were analysed and the themes which emerged from that analysis provided the framework for the thesis and are explored in chapters two through to six (references to interviewees in the text are enclosed in brackets and written in italics).

The quantitative data which this research in part draws on is treated as reliable only in so far as it is indicative of patterns or trends. Census material, for example, is necessarily unreliable in this context when taken as hard data but when used critically they can yield interesting insights. Likewise, newspapers and government publications cannot be read uncritically as sources of fact but they can be used to explore government policy and the gap between reality and rhetoric. Finally my impressions of life in Ethiopia during my fieldwork, discussions with colleagues at Addis Ababa University and conversations with other Ethiopians also informed this thesis.

The analysis of the interview transcripts played an important part in developing my understanding of the relationship between merchant capital, peasants, and the state. The transcripts cannot, of course, be read as offering a simple convergence between the issues discussed and the reality they attempt to investigate. Their utility is as sources of the range of stances adopted by different actors on the core issues which form the structure of this thesis: economic policy and action, foreign policy and action, and domestic regional policy. While most readers are likely to be sensitive to the subjective status of interviews, and the problems with reading this and other qualitative research as an unproblematic representation of reality, the same may not be true of quantitative research. Statistical data bases have not on the whole been subjected to the same scepticism as qualitative material. A naive faith in the ability of statistics to describe reality is not as uncommon as it might be. The mistaken conclusion that capitalism had taken root in Africa has been one unfortunate consequence of this unwarranted faith in the reliability of official data series (see, for example, Sender and Smith, 1986). The weakness of the database on Africa has often

been commented on and Ethiopia, despite an abundance of government documents and a comprehensive library at the Institute for Ethiopian Studies, also suffers from a paucity of sound data. A great deal of the data used by different agencies relies on one or two sources, the problems of extrapolating data from initial studies are frequently ignored, and attempts to attach undue significance to small samples by the use of such devices as translating small numbers into larger percentiles is not uncommon. While being aware of the unreliable character of the statistical data I have nonetheless made use of it to identify broad-brush trends, for example the extent of urbanisation, and dominance of economic activity in urban areas by sales and services. I have also maintained a sceptical stance to the data by attempting to substantiate claims from more than one independent source. Indeed this scepticism has enabled me to illuminate the substantial gap between government policy and its intervention which is an important dimension of the analysis offered in this thesis. However, the database is weak in Ethiopia, in addition to which the questions I address are not necessarily those which have interested data compilers. The key finding of my research, the central role of merchants in determining state action is necessarily, given these difficulties, a preliminary conclusion which would benefit from further research which focuses specifically on the concrete relations between merchant capital, regime actions, state power, and the peasantry.

### Theoretical framework

In this thesis I use a theoretical framework, historical materialism, which gives unity and coherence to the three different aspects of Ethiopia discussed here: economy, international relations, and nationalism. Essentially, historical materialism offers a

unified theory of state and society, which takes as its starting point the dominant mode of production and relates that to ideological and state structures. Historical materialism implicitly argues that the contemporary form which a social formation takes is shaped by the histories which preceded it, and in particular the history of the ways in which material production has been organised and therefore of the relationship between states and classes. It is therefore necessary, in this view, to situate analysis within an historical context, and not an arbitrary history but specifically the history of the forces and relations of production (see Halliday, 1994:47 - 73).

Marxist analysis, in part because of its central concern with capitalism and in part from its conviction that capitalism has indeed succeeded in reproducing the world in its own image, does not have a significant body of work which applies the tools of Marxist theory to non-capitalist social formations. In Marx's work discussion of pre-capitalist formations is largely confined to the concepts of feudalism in Europe, slavery, and the Asiatic mode of production (Hobsbawm, 1965). Anderson has argued (1974) that the term feudal can only be usefully applied to Europe and Japan (see chapter two). Marx's sketch of the Asiatic mode, notwithstanding the oscillations of its evolution in his writing, can be summarised as a complex in which there is,

the absence of private property in land, the presence of [state-organised] large-scale irrigation systems in agriculture, the existence of autarchic village communities combining crafts with tillage and communal ownership of the soil, the stagnation of passively rentier or bureaucratic cities, and the domination of a despotic machine

cornering the bulk of the surplus and functioning not merely as the central apparatus of repression of the ruling class, but as its principal instrument of exploitation. Between the self-reproducing villages 'below' and the hypertrophied state 'above', dwelt no intermediate forces. The impact of the state on the mosaic of villages beneath it was purely external and tributary; its consolidation or destruction alike left rural society untouched (Anderson, 1974:483).

In addition to the problem that this model was built on inaccurate historical accounts of India, it must also be criticised, in historical materialist terms, for its theoretical incoherence on the role of the state. If a powerful central state is a structure which arises in a class-divided society it cannot be explained in relation to classless village communities.

The most sustained attempt to apply Marxist theory to an analysis of the Third World is found in dependency theory. Dependency theory however gives primacy to the sphere of circulation rather than production (Frank, 1967; Wallerstein, 1974). This emphasis has formed the basis of a historical materialist critique of dependency theory which argues that it ignores the transforming nature of capitalism and treats states (rather than classes within states) as the subjects of exploitation and therefore as the bearers of an homogenous national interest (Warren, 1973). Furthermore, in identifying exchange rather than production as the source of exploitation dependency theorists are implicitly advocating reform of capitalism by adjusting the terms of trade between countries, or sectors. For Marxists exploitation arises from the organisation of production and can therefore only be resolved under socialism. It is for this reason that Bernstein (1979) rejects what he describes as the obvious solution

to explaining the mode of production in African economies that the appropriation of surplus is carried out by merchants.

Bernstein is not alone in rejecting the possibility, from a Marxist perspective, that merchants may on occasion be a dominant (surplus-appropriating) class. In general attempts to understand the role of merchant capital within a Marxist or historical materialist paradigm view it as parasitic on other formations. The following quote is illustrative of this dominant stance within Marxism,

On balance, indeed overwhelmingly so, merchant capital proved conservative: it fed off existing modes of production, however backward. Normally, merchants...resisted all attempts to introduce revolutionary transformations into the economy, into politics, into class relations. In a word, they normally lived as parasites on the old order (Fox-Genovese and Genovese, 1983:5).

In this view, the role of merchant capital in the transformation from feudalism to capitalism as a site of primitive accumulation was exceptional.

It is however little more than tautology to argue that merchant capital is parasitic because it is not generally involved in securing a transition from a pre-capitalist to a (industrial) capitalist mode of production: were it to do so it would of course cease to be merchant capital and become industrial capital. The point for Marxists, as I have suggested in my discussion of the historical materialist critique of dependency theory, is that exploitation rests in production and not in exchange.

However even this simple conceptualisation creates problems for understanding relations between producing and surplus-appropriating classes in pre-capitalist societies. Exploitation rested, according to Marx, on the labour theory of value. What

that means is that human labour, and only human labour, confers value on commodities but the realisation of that value is unequally shared, to the loss of labour, between capital and labour. At the time that Marx was advancing this argument bourgeois and radical economists alike assumed that commodities embodied labour. Bourgeois economists have since abandoned this theory along with its corollary that commodities had a natural price. Kay in his Development and Underdevelopment: a Marxist analysis (1975) makes a valiant attempt to demonstrate the salience of the theory by showing that labour is embodied in all factors of production, including capital goods. However the argument that exploitation rests in the sphere of production can be pressed without either advancing the labour theory of value or retreating to a Saint-Simon conception of socialism. Exploitation arises simply by virtue of the fact that those who own the means of production, producing nothing abrogate to themselves the products of those who, owning nothing but their labour power, are compelled to produce for capital. If this is the root of exploitation then an end to exploitation requires an end to the monopoly of private capital over the means of production, and cannot be achieved simply by tinkering with the terms of trade.

Even having abandoned the labour theory of value, the application of a concept of exploitation which rests on the ownership of the means of production is also difficult to apply to most developing countries because, as in Ethiopia after land reform, the means of production are very often owned by the state. Indeed, it is the concentration of productive resources in the hands of state actors which has led to state bureaucrats and politicians being considered as a hybrid state-bourgeoisie.

Despite the paucity of work on pre-capitalist social formations by Marxists, the key

tenet of historical materialism, that a social formation can in some sense be read from the mode of production which dominates it, can be fruitfully applied to the non-capitalist world. Indeed, its application orders what otherwise appear as unconnected and impenetrable events. This is not to underestimate the problems with applying a model which was originally intended for analysis of capitalism to pre-capitalist formations. The mode of production which is the basic model on which Marxist analysis rests is an abstraction to which pre-capitalism does not easily lend itself. In a pre-capitalist formation characterised by subsistence agricultural production for example, producers may control the means of production and yet have their surplus expropriated by non-producing classes. Whether or not peasants formally own the land they farm seems to have little bearing on their relationship to non-producing classes. Attempts to resolve this paradox generally depend on models of a stratified peasant society, undermining idealised characterisations of homogenous, co-operative peasant communities. However these models have often overstated the extent of economic differentiation between peasants. Surplus is appropriated not by the rich peasant, the kulak, who owns or farms more land than other peasants, or owns capital (e.g. oxen) but by the state, by merchants, and by aristocrats who are not necessarily landowners.

The state realises the extraction of surplus through taxes, particularly taxes on trade, merchants by unequal terms of trade, and aristocrats by taxes and rent. The state is a key player in reproducing the mechanisms of surplus extraction not only on its own behalf but also on behalf of dominant classes. The state's role is so central because since peasants remain in control of the means of production and can subsist without recourse to the market, surplus is appropriated through extra-economic means, that

is by political measures which compel or coerce the peasantry into market relations. These political measures may be directly coercive, as with imprisonment for the non-payment of taxes, or indirectly so, as with the threat of land alienation. Dominant classes may employ their own surplus-extracting mechanisms alongside the state, which may compete with or complement state actions. The reciprocity of lord-peasant ties provides a culturally-sanctioned mechanism of surplus appropriation. Merchants appropriate surplus not by their ownership of or control over land but through their control of other means of production such as tools, storage, and transport. In simple terms, if peasants must pay taxes in cash they are forced to enter into market relations which are controlled by merchants, who, because of the underdevelopment of infrastructure and of markets are in a position to buy peasant produce on unequal terms.

This does not amount to saying that exploitation arises in the sphere of circulation. If that were so then simply offering peasants better terms of trade would alter the character of exploitation. State interventions in trade and state ownership of land combine to ensure that peasants do not have control of surplus and they are therefore forced to deliver that surplus to dominant classes, in this instance merchants. Unsurprisingly merchants offer the lowest possible price, but even if this were improved on, it would not reduce the character of exploitation. (Anymore than raising wages changes the character of exploitation in the advanced capitalist countries, although it may change the experience and perception of exploitation). Furthermore, merchant control of means of production other than land (e.g. transport, storage, tools) enables merchants to work with the state to ensure that peasants are parted from their surplus product.

An historical materialist analysis takes as axiomatic the material basis of political power, that is to say that state structures arise from and are sustained by economic production (while also being involved in its reproduction). What this amounts to is simply a recognition that states are not abstract structures but a unity of concrete apparatus which depend for their perpetuation on their ability to access resources, including capital. These resources are generated, of course, by producers. The state (i.e. those people who embody the state's agenda) could extract surplus from producers simply through coercion. This scenario of states confronting the peasantry is characteristic of the literature. What that ignores is both the costs associated with coercion (the expenditure of state resources) and that pre-capitalist states (which use extra-economic measures to extract surplus) are unlikely to have the capacity which such a confrontation implies.

The ways in which surplus is extracted from producing classes reveals not only their relationship to expropriating classes but the whole social and political structure which supports and is supported by that relationship. It is not as Skocpol has suggested only that Marxists retain "...society-centred assumptions" (Evans, 1992:5) but that society-centred assumptions are written into Marxist analysis or, more accurately, that Marxists view state and society in relation to one another.

The primacy of the material is of course contested by other social science traditions. The accusation of economic determinism or "vulgar" Marxism has even undermined the primacy of the economic within Marxist analysis. Indeed, if we take economic primacy in a predictive sense, e.g. that the capitalist mode of production will produce the political form of liberal democracy, then Marxism does lose its explanatory power. The relationship between the economic and the political is both subtle and

complex and can only be grasped by concrete analysis of particular social formations. The power of historical materialism lies in its use as a method or a tool of political analysis.

That the ways in which surplus is extracted from producing classes reveals the social and political structure which supports and is supported by that relationship, that is to say the character of state structures, is a hypothesis which is tested by this study. If it is true that such a relationship exists then, providing that it is possible to identify how surplus is appropriated, a plausible account of the structures of state power and their relation to classes and governments should be possible.

In attempting to explicate the roots of state power in this way it should be clear that continuity between regimes, despite vastly different policy frameworks, is an expression of a deeper, underlying continuity in the structures of the social formation. It is insufficient to identify continuities (Clapham, 1988) it is also necessary to explain why continuities occur, how they are sustained and what sustains them. In this case, what the method showed was that a class which has been virtually ignored in the literature, merchants, were key to understanding the collapse of successive regimes, the ways in which peasants related to other classes and to state structures, the international relations of the Ethiopian state, and the persistence of regional identities. An historical materialist analysis brings this class sharply into focus because it has largely been through their actions that surplus has been appropriated from the peasantry. Similarly, such an account avoids two problems which are present in most other accounts on Ethiopia. One is the emphasis on personal rule which collapses into one category the head of state, the government, and the state itself. This leads to an over emphasis on the motivations and actions of

Haile Selassie, Mengistu, and Meles Zenawi. A structural account, while not completely dismissing the importance of political leadership, implies that leadership is overwhelmingly subject to the constraints imposed by structures. The second dimension of modern Ethiopian history which this account does not deal with, but which is prominent in most other accounts, is the role of the urban left in the events of 1974 and the influence which it is said that the left exerted over the Derg. The assertion so common in the literature that the urban left was crucial in the 1974 revolution is not sustained by the systematic investigation of the impact of the Derg's actions offered in this thesis. The analysis in this thesis suggests that, far from being an ad hoc response to the urban left in an attempt to gain legitimacy, the Derg's reforms aimed to curtail foreign capital and in so doing they strengthened and protected the position of domestic merchant capital.

#### Domestic dimensions of state stability and regime collapse

If what divides revolution from reform or coup is the destruction of the dominant social group (Trimberger, 1978) then the 1974 seizure of power is somewhat paradoxical. One dominant social group, landlords and nobility, simply melted away whilst another, merchants, were strengthened by state action after 1974. This paradox can be resolved within the paradigm of the mercantile state in the following way: the limited penetration of industrial capital under Haile Selassie provoked a congruence of interests (rather than an alliance - which suggests a much more purposive agenda) between traders and peasants. The expanded opportunities for merchants which followed in the wake of the nationalisation of foreign trade, together with the already extensive involvement of landlords in trading networks undermined landlord

resistance or more to the point made resistance unnecessary. In the north the preoccupation of the nobility with consumption, trade and war rather than production and development reshaped the nobility into traders, state bureaucrats and farmers. In short the 1974 seizure of power resulted in a reassertion of merchants over industrialists. Neither 1974 nor 1991 were revolutions in the sense of a reordering of class relations. Instead new regimes occupied stable state structures: the incumbent regimes were vulnerable to changes in the international system in ways in which the social formation was not. Nevertheless, regime collapse in the late 1980s created the conditions for a political competition which may push through into change at the state level.

It is for this reason that I have characterised Haile Selassie's government, the Derg, and the TGE as regimes rather than governments. The transfer of power from one government to another implies a rule-based mechanism for power transfer and a high degree of continuity in government policy. I have used regime change, on the other hand, to suggest an extra-legal transfer of power in which the new regime positions itself in ideological opposition to the previous regime. The failure to translate these radically different stances to governing into concrete social and economic change is testimony to the durability of state structures which these regimes occupy. It is this durability in turn which makes it useful to distinguish between state stability and regime collapse.

#### International dimensions of state stability and regime collapse

In contrast to dependency theory, which emphasises the external orientation of the state and reads that as dependency constructed and sustained by the advanced capitalist countries, I have started from the assumption that the foreign policy of the

Ethiopian state is determined in the first instance by its domestic sources even while it is shaped by the international system. In short, even in the international system, which is classically viewed as the domain in which the state acts autonomously, state actions are determined by domestic sources.

In particular, the failure of domestic capital accumulation renders the state dependent on international finance. The state is externally dependent because of, rather than despite, its domestic embeddedness. To the extent that this search for external financing is successful it at the same time protects the social formation from the necessity of introducing change at the productive level. Paradoxically then, international capital may prevent or obstruct the extension of industrial or agricultural capitalism to African states. It should be clear that it is not the intention of international agencies to perpetuate pre-capitalist social and economic structures. Indeed whether or not it does so depends on the configuration of the international system as a whole. State access to external sources far from being an expression of state autonomy is an expression of the state being implicated with a non-productive ruling class in the form of merchant capital. The endurance of the social formation which rests on the realisation of surplus in the sphere of circulation (rather than production) has underpinned state power and guaranteed state stability in Ethiopia, at the same time as the search for international support to compensate for the failure of capital accumulation has contributed to successive regime collapse. Regime collapse has been precipitated by change at the international level and the character of successive regimes has been stamped by international forces.

Both merchants and the state needed access to domestically-generated resources, that is to say: to the surplus of direct producers. For the state access to revenues from

agricultural goods (in particular coffee) were essential for the maintenance of state structures, for merchants these same revenues formed the basis of their capital accumulation. It is instructive to note that revenues from taxes on the key export crop, coffee, far outstrip any other source of domestic revenue and yet coffee has remained overwhelmingly in the hands of merchants operating in both legal and illegal channels, and coffee production continued to be, for the most part, carried out by household farmers. This *coincidence of interest* was what shaped merchant-regime relations. The extension of merchant capital's interest was an effect of the exclusion of industrial capital. If state action is simply concerned with reproducing state structures by the most effective means available then nationalisation, if it leads to a diminishing of industrial capital, is not a particularly effective or rational choice. Only by associating merchant capital with the state does it become so.

This of course begs the question of in what specific ways did regime action under the Derg support merchant capital. This question is particularly pertinent given the extent to which the Derg publicly distanced itself from merchants, and advocated policies which are usually seen as inimical to merchant activity. One of the most striking things about Ethiopia is the extent to which substantial personal wealth has been accumulated by a small class during a period in which industrial activity shrank and peasants were further entrenched in their existing mode of production. Probing this contradiction was a theme in many of the interviews I conducted, and many of the conversations I had while in Ethiopia. I asked one businessman how this wealth had been accumulated. His reply was "aya-bya": the buying and selling of air. In other words, the Derg delivered benefits to merchants precisely by its intervention in a trade regime which is usually seen as limiting merchant activity: import/export

licences, subsidising goods for urban stores from government supplies, and other rent-creating mechanisms. The other way in which the Derg and merchants interacted was in the more or less successful attempts to force peasants to the market by levying taxes in cash and setting supply quotas which were enforced by local government agents.

### Chapter outlines

This thesis is organised into eight chapters, including this introduction. Chapters two and three set out the dominant structures of the Ethiopian economy: land, trade and industry. In chapter two I begin by discussing the position of rural classes before the 1975 land reform. Land tenure in Imperial Ethiopia while being very complex was essentially characterised, I note, by peasant control over the means of production. Surplus was appropriated by merchants, landlords, the northern aristocracy and regional state bureaucrats on their own behalf as well as on behalf of the central state. The relative shares of each of these appropriating classes in the rural surplus was determined by a range of factors but the central state played a critical role in organising the distribution of surplus. The 1975 Land Reform essentially extended peasant control over the means of production and entrenched them further in their existing conditions of production. The rural surplus after Land Reform was shared between peasants, merchants, and the state (locally and centrally). I argue that the impact which the development of capitalist agriculture had on class relations has been greatly overstated in previous accounts, as has the extent of the Derg's capacity to implement its stated objectives for rural development. The Land Reform Proclamation was essentially a successful attempt to retain the authority for land

seizures which were already underway. While the Derg's withdrawal of state support from regional landlords and nobility was important in undermining these classes, the weakness of these classes was the more important factor in preventing landlords from raising resistance to land reform. The increase in peasant control over production increased on-farm consumption rather than, as had been anticipated, increasing productivity. In response the Derg regime initiated a series of measures designed to ensure that the regime could satisfy urban food needs and the state's participation in the import-export trade. The Derg's most important interventions in the rural economy were not interventions in production, which were minimal, but in trade. These interventions, and the industrial policy of successive regimes are the subject of chapter three. In that chapter I discuss in a historical perspective the organisation of long-distance trade and state involvement with that trade. I argue that control of long-distance trade has been crucial to the ability of regimes to preserve and expand state structures. I suggest that this has brought the state into alliances with merchant capital which were threatened by the emergence of industrial capital in Ethiopia from about 1960. The Derg's nationalisation of industry expelled the only class capable of forcing a transformation in the conditions of production: the foreign industrial bourgeoisie. The expulsion of foreign capital also gave the state a larger share of the import-export trade and brought domestic capital into this arena for the first time. The trade regime which the Derg enacted also benefited domestic merchant capital in compelling peasants to enter the market and creating the conditions in which a highly lucrative illegal market could flourish. I argue that the new regime has continued to support merchant capital but is also inviting industrial capital back into Ethiopia and I suggest that this could pose problems for regime legitimacy. Chapters

four, five and six discuss the ways in which these economic structures have impacted on political structures, internationally and domestically. In chapter four, on Ethiopia's international relations, I show that external support has been crucial to the survival of Ethiopian regimes, as much for the political legitimacy which great power alliances have conferred on them as for the material benefits which have accompanied such alliances. I suggest that these external alliances have been so crucial because of the low-levels of capital accumulation and the pre-occupation with unproductive activities which has characterised domestic ruling classes. The importance of external alliances has meant that control of central state power has been the central aspiration of ruling classes who have sought to consolidate local political power by establishing national alliances with subaltern classes in order to compete more successfully for central power, at the expense of economic development. Conversely, the low-level of development of the productive forces has undermined a sense of pan-Ethiopian identity and shored up regional identities. The regional policies of the Derg and the EPRDF are discussed, in chapters five and six respectively, as different, but not very different, ways of managing the resulting fragmentation of political power. In chapter seven I discuss a theme which is implicit in the material presented here, that of state continuity. I look at the degree of state penetration, the levels of direct taxation, and the military basis of regime legitimacy across the three regimes of Haile Selassie, the Derg, and the Transitional Government. In the final chapter I discuss the literature on class and state in Africa and I argue that the model offered here of a state supporting a dominant merchant class may be useful for understanding the relationship between the state and classes elsewhere in sub-Saharan Africa.



## Chapter Two

### LAND AND AGRICULTURAL PRODUCTION

In this chapter I discuss some key aspects of rural life under the Derg regime and in the transition period. In particular I discuss land and the organisation of agricultural production. I review the impact which land reform had on rural classes and the ways in which the Derg both contributed to and responded to changes in the political economy of the Ethiopian countryside. In this account I show that the Derg's contribution to land reform was in many ways insubstantial. This is not to deny that land reform had an impact on class structures and on the prevailing mode of production; it is to suggest that the regime's competence or capacity to implement land reform has been overstated in previous accounts. The characterisation of the Ethiopian state as robust and effective, in contrast to other African states, has been one of a number of factors which have left the relationship between state and society, between regime goals and their implementation, relatively unexplored. It is part of the task of this chapter to explore these relationships.

I begin by outlining the class structure of the countryside as it was before the 1975 land reform. In the most general terms, subsistence farmers cultivated land which they occupied by usufructuary right or by tenancy. Their surplus was appropriated by nobility or landlords and to a lesser extent by merchants and the state. None of these classes or agents intervened in production. The Haile Selassie regime, from about 1960, in partnership with foreign capital promoted the beginnings of capitalist agriculture. It was therefore an external class, the foreign bourgeoisie, who were the only class which sought to transform production. They were expelled from Ethiopia after the nationalisation of private companies in 1975. I then discuss the persistence

of peasant production since the 1975 Land Reform. I argue that land reform increased peasant control over production and that it did not stimulate a sustained increase in production. I suggest that the Derg's involvement in land reform was minimal but decisive, in as much as it broke the (albeit uneasy) state-landlord alliance which had previously dominated the rural economy. The abolition of the economic base of landlord and aristocratic power, through the prohibition on rent and tribute after 1975, eroded class differences in the countryside. The next section is an analysis of state attempts to transform production through State Farms under the Derg. I argue that since land reform did not transform production, quite the reverse, and the state did not have the resources to force a transformation which would have disrupted peasant production, state farms, co-operatives, villagisation and resettlement schemes can be viewed as attempts to circumvent the limited access which the state had to agricultural products without jeopardising peasant production. State farms, producer co-operatives, villagisation and resettlement formed part of the Derg's strategy for maintaining sufficient grain supplies to meet domestic food needs and control over the export trade. The impact of these interventions on production was negligible: control of trade remained the most important objective of state policy for the rural economy.

Having considered the Derg's agricultural policies and practice I then turn to the Transitional Government's agricultural strategy. My discussion of the TGE/FDRE land policy shows that the EPRDF has continued the Derg's policy and is leaving peasant production intact. I show that given the persistence of subsistence farming the TGE is mistaken in its assumption (which it shares with donor agencies) that correcting market "distortions" will lead to increases in productivity. The TGE's

attempts to stimulate commercial agriculture, I note, suggests that they have the political will (if not the resources) to transform production in capitalist enclaves. This is a strategy which bears comparison with the Derg's state farms project.

#### Rural classes before 1975

How to characterise pre-revolutionary Ethiopia has been the subject of much debate, principally centring on the question of whether or not it could accurately be called feudal. Ellis (1975) cautions against conceptualising Ethiopia as feudal. His reservations concern the absence of serfdom and of the fief. Gamst (1970) holds that Ethiopia was feudal by Bloch's definition. Hoben (1973), in an analysis of *rist* based on field work, did not find evidence for the existence of feudalism in the highlands of Ethiopia. He says that none of the assumptions underlying the term were present: power and social status were not hereditary, peasants were neither land-poor nor landless and therefore were not dependent on a land-holding gentry, and social mobility did exist. More generally, Anderson (1974) makes a persuasive argument against using "feudal" to characterise pre-capitalist formations other than in western Europe and Japan. He argues that stretching the term to incorporate other pre-capitalist formations presents the problem of why it was the original feudal countries which experienced the "take-off" to industrial capitalism. Indeed, including Japan among the feudal countries he reads backwards from the modern period: if a country is now an advanced capitalist state then its pre-capitalist mode can be called feudal, with the exception of course of what might be termed settler-capitalism. Anderson argues that pre-capitalist formations all of which necessarily extract surplus from producers by extra-economic measures can only be differentiated by specifying the

structures of political power. While some of this debate is useful in understanding the character of classes and state power in Ethiopia, much of it seems rather pointlessly pedantic. It is important, as I argued in chapter one, to specify the ways in which direct producers are made to part with surpluses. The mechanisms of surplus extraction do illuminate relations between classes and between classes and the state. However, useful as descriptive labels can be, it is more important to specify how, and by whom, surplus is expropriated and in what ways state power is used to sustain these mechanisms of expropriation. To this end, leaving aside the issue of how to label pre-capitalist Ethiopia, a subject which I return to in the conclusion, I offer here a description of the rural class and state structures which predominated until 1974.

To some extent, the possibility that Ethiopia may have been feudal until 1974 generated so much interest because of the comparisons with European history which a feudal Ethiopia could offer, and the hope that “feudal Ethiopia’s” confrontation with capitalism might be resolved in an historic struggle between two modes of production which would be resolved by the more progressive mode (see, e.g., Bondestam, 1975). In short, Ethiopia appeared to many on the left as a vindication of Marxist theories of revolution. This pre-occupation with Marxist models permeated the rhetoric of Ethiopian student activists who saw in the 1974 seizure of power an historic opportunity to resolve the struggle between capitalism and feudalism by creating a socialist state. The account of economy and society offered here suggests that the extent to which capitalism was established by 1974 has been overstated, particularly in those accounts of the revolution which attempt to show that the Derg betrayed the genuine possibilities which existed in 1974 to establish an

egalitarian society. In particular I contest the view that “Basically the 1974 February social upheaval was an outcome of the transitional crisis from feudalism to capitalism”(Makonen Getu, 1987:60).

#### Land tenure in Imperial Ethiopia

In Imperial Ethiopia land tenure was very complex (for a comprehensive review see Gebra-Wold-Injida Worq, 1962). There were considerable variations on the rights of peasants over land between and within provinces. Despite this wide variation the standard taxonomy in the literature adopts a simple distinction between land law in the northern and southern provinces. Prevalent in the north was a form of tenure known as rist. There was no landlord class in the north and land was inalienable. It was worked by peasant-cultivators who could also lay claim to other land-holdings by proving descent, on either parents side, from the original landowner. It is unlikely that a claim would be made on land unless a cultivator had sufficient resources to farm the additional land. When a claim was made the veracity of inheritance rights would be determined through litigation. Land litigation was a lengthy process in which a successful outcome for the claimant would be likely to depend on his or her connections with influential people and the availability of finance and other resources to pursue the claim. The potential for social mobility was therefore inscribed in the custom and practice regulating the use of land but was restricted in practice by the unequal distribution of resources. Nevertheless, however mythical the social mobility of northern society may have been, it is the case that the ruling class was not a landlord class. Surplus appropriation was by way of tribute, corvee labour and military service which peasants were obliged to provide the local nobility with.

These were inscribed in the granting of gult by the emperor to local rulers who, in turn, could make grants of gult to sub-rulers. Gult rights were enforced through the exercise of various threats and sanctions. Attempts to increase the burden of tribute, taxation or corvee labour were fiercely resisted. In the north then, tenancy was relatively uncommon. The frequency of tenancy ranged from one in fourteen to one in seven in the northern provinces (Girma Kebede, 1987:5). Certain categories of people were excluded from rist rights. Potters, weavers, smiths, tanners and minority religions (Falashas, for example) were not allowed to own land. Dessalegn (1984:21) argues that conceptualising land rights as a north/south dichotomy obscures the prevalence of tenancy in the north. He prefers tenures to be considered as either usufructuary or private.

Dessalegn emphasises that regardless of whether or not land was held by rist rights or by tenure, in either case the state held the ultimate title to all land (although a 1957 review of land tenures suggests that this view is not correct, see Balambaas, 1957). Nevertheless, usufructuary rights did prevail in the north and private tenancy in the south. In the northern highlands peasants had guaranteed and inalienable rights to the possession of land. Legal obligations on peasants to provide lords with tribute was perceived to be a social obligation and not "rent". Class position was perceived to be fluid, and to some extent was fluid in the sense that peasants could, and occasionally did, acquire land and wealth and therefore status. Conversely the nobility could lose gult rights over land, which in any case were not hereditary. Economic differences between households were not embedded in different cultural practices (Hoben, 1973).

In the south grants of land to soldiers and "collaborators" following incorporation

into the Ethiopian empire at the turn of the century created a ruling class whose access to the surplus of agricultural producers was by various forms of rent, paid in kind, labour or money. The ways in which the south was incorporated into the Empire meant that tenancy was common and peasant access to land was not managed by the same strategies or social structures that prevailed in the north. Tenancy was most common in Shoa, Wollega, Kaffa and Illubabor, with about one in two households being tenants (Dessalegn, 1984:24). Tenancy arrangements regulated the farming of 80 per cent of land. Overall, about every second farmer in the southern regions was a tenant paying between one-quarter and one-half of his annual produce to landlords.

Northern peasants had legal control over land, but northern and southern peasants had de-facto control of land, the principal means of production. These differences in the legal forms of property may have obscured the similarities between northern and southern (or usufructuary and tenant) producers (Dessalegn, 1984:24). They have in common what peasant producers have in common everywhere and which marks them out as "peasants": they are subsistence cultivators who organise production to meet the immediate consumption needs of the production unit, typically the household, using rudimentary technology to cultivate smallholdings. Peasants seek to minimise risk by strengthening risk-absorbing social organisations, not necessarily by increasing production. Peasant resistance to new technologies which have the capacity to transform production is well-documented. New means of production diminish peasant control over the organisation of production and increase peasant dependence on other social classes. It is in this context that peasant responses to development initiatives should be understood. Improved inputs which development

agencies introduce in order to increase production may be adopted alongside reductions in the area cultivated (so that absolute production levels remain the same even while unit production levels increase). Aid agencies find that inputs of new means of production, such as oxen, are sold by the recipient and the cash used to meet social obligations. Likewise credit is often diverted into "unproductive" uses. Peasants subvert development initiatives to maintain their control over production and to strengthen social networks which maximise their risk-bearing capacity.

Some statistics illustrate the extent to which farming in Ethiopia is carried out by subsistence farmers: of 16.6 million hectares under cultivation, 94 per cent is farmed using basic tools; subsistence farming accounts for 93 per cent of crop production. Ethiopia's degree of dependence on subsistence agriculture remains high, even by comparison with neighbouring countries. Access to means of production other than or in addition to land, in particular oxen, was important and until 1975 was a key basis of class stratification. Nonetheless, the extent to which class differentiation existed within the peasantry should not be overstated. While some peasants farmed more land than others and some had access to oxen and perhaps hired labour from time to time, there is no evidence to suggest that by 1974, or since, a class of rich peasants or kulaks had emerged. Conversely, neither had a class been created of what might be called proletarian peasants or landless labourers. The agricultural surplus was captured by landlords in the south and by the aristocracy in the north, by means of either tribute or rent, until the Italian occupation. During the occupation the Italian administration had begun to collect taxes which had to be paid in cash. These taxes were continued and extended after the restoration. In addition Haile Selassie removed the obligations on peasants to perform services for lords. The right of the northern

aristocracy to collect tribute was abolished and they became state tax collectors. The imposition of taxes was resisted, particularly in the north. There were revolts in Gojjam in 1942, 1951 and again in 1967, in Tigre in 1941, and in Bale between 1963 and 1970. The contribution of direct agricultural taxes to state revenues was nominal before 1974. Land taxes accounted for about 1 per cent of state revenues in 1972 (Donham, 1986:33; Gilkes, 1975a:78) If export taxes are included then the contribution of agricultural taxes averaged 16 per cent in the ten years before the revolution. In the ten years from 1974, agricultural revenues were an average of 22 per cent with a low of 6.6 per cent in 1974/75 and a high of 20.6 per cent in 1979/80 (Teshome Mulat, 1992:69). In 1974 almost two-thirds of the population lived outside of the money economy. Only a minority of the other one-third had the resources to regularly buy manufactured goods - other than clothes and simple household equipment (Bondestam, 1975:539). Production for the market was insignificant relative to production for consumption but nonetheless provided merchants with access to peasant surplus. In the late 1960s only about 15 per cent of agricultural produce entered the market. The change in tax from payment in kind to payment in cash, which was introduced after the Italian occupation, would have expanded the involvement of peasants in production for exchange and increased the scope for merchant activity.

Despite these surplus-expropriating measures the dependence of peasants on other classes for access to land was disguised by social structures in the north and by the absence of interventions in production by other classes throughout Ethiopia. In the south where tenancy was more prevalent it only became clear that peasants depended on landlords for their access to land once a market in land emerged in the Awash

Valley following the introduction of capitalist agriculture in the 1960s (Markakis, 1987). The Awash Valley was chosen as the original site for concessions to foreign capital to develop capitalist agriculture because it was traditionally the grazing lands of the pastoralist Afar. Cohen and Weintraub (1975) suggest that Haile Selassie chose this area as the site for innovation in the expectation that pastoralists did not have recourse to political intervention or action which might have been available to peasants. Far from engaging in struggle against the emergent capitalist agriculture the Sultan himself procured concessions and made substantial amounts from these investments. These enclaves of capitalist agriculture were initiated by joint ventures between the Ethiopian state and foreign corporations. Under these joint ventures 200,000 hectares of the Awash Valley were brought under cultivation between 1962 and 1971. Located on pastoralists land, commercial farms did not directly engage with or directly confront peasant agriculture but its use of waged labour and the creation of a market in land which it stimulated did disrupt both peasant control over land and landlord control over labour. Other attempts to transform agriculture were the agricultural development scheme at Chilalo (CADU). (An expanded scheme at Arsi, also funded by Swedish International Development Agency was set up by the Derg.) CADU, according to Cohen, contributed to the eviction of 20,000 people between 1966 and 1974 (Makonen, 1987:52). CADU's success at increasing yields was at the expense of poor peasant farmers (Haile Asmeron, 1990). While these contradictions do hint at the complex problems of developing agriculture, in particular the extent to which successful attempts to increase agricultural productivity can undermine the security of farmers by creating lucrative markets in land and stimulating the interest of dominant classes in commercial agriculture, the impact of

20,000 evictions in a country of over 50 million people should not be overstated. Indeed, both the extent of the disruption caused by the Awash concessions, its contribution to the 1974 revolution, and in particular the implications for what type of regime could have emerged from that revolution have been greatly overstated in the literature. Bondestam (1975) in a review of post-restoration economic development showed that in absolute terms growth associated with foreign investment was very small but still concluded that capitalism was transforming the Ethiopian economy.

Estimates of the amount of land owned by the Church and the tenure arrangements in existence on Church lands vary greatly. Certainly the Church amassed substantial revenues from land rent and taxes (Girma Kebede, 1987:5).

#### *Taxation*

Direct taxation of the population prior to 1974 was negligible. In the 1960s indirect taxes provided three-quarters of revenue. In 1973/74, for example, over half of government domestic revenues were generated by income tax, import duties, and excise taxes on petrol and alcohol. That is to say, taxes which for the most part were levied on urban consumers. Taxation of the rural sector was through land, tithe and cattle tax. These were unevenly distributed. Prior to 1942 taxes had been paid in kind and levied arbitrarily. In 1942 and 1944 land tax legislation was introduced in order to regulate government revenues. Gojjam, Tigre and Begemdir were exempted from the new tax. This was a response to tax revolts in these districts and indicates the central government's tenuous extension of its authority. Church-owned lands (Semon) were also exempt from state tax. Cultivators of Church lands had to pay the tithe directly to the Church. In 1944/45 land tax and tithe together accounted for one-

fifth of government revenue (Stahl, 1973:68). In the five years from 1961/62 to 1966/67 revenue from land tax and tithe increased by 6 per cent. In the same period government expenditure increased ten times (Stahl, 1973:70). In the ten years prior to the revolution government spending grew at an annual rate of 8 per cent, compared with a GDP increase of 5.5 per cent a year. Government tax revenues increased proportionately so that, "...even before the revolution the state was extracting an increasing share of GDP, and...faced an imbalance between the growth rates of the productive base and of the government apparatus that relied on it"(Clapham, 1988:102). Since the government was incapable of extending the tax base by taxing landlords and regional lords (Stahl, 1973:7) increases in tax revenues were almost entirely generated from the small urban sector (Clapham, 1988:102).

Haile Selassie's regime made several ineffectual attempts to widen the tax base and improve agricultural productivity. It has been argued (Markakis, 1973, 1986; Ottaway, 1976) that land and tax reform, for example the Land Tax (Amendment) Proclamation of 1966, succeeded in fundamentally altering Ethiopia's political economy. Markakis, for example, argued that "Property ownership in the modern sense, then, is rapidly becoming a basic attribute of class status in rural Ethiopia. Large landowners, small-holders, landless tenants, and agricultural labourers are emerging as distinct socioeconomic categories" (Markakis, 1973:366). The critical word here is "emerging", for although the proposed legal reforms had the potential to regulate new relations of production and create the legal conditions which capitalist agriculture would find useful, the anticipated changes had not emerged by 1974. In fact the tax and land reform acts of Haile Selassie's government were very unevenly implemented in rural areas. Enclaves of capitalist agriculture - joint

ventures between the state and multi-national corporations - had been established, in particular as part of the Awash Valley development. Their impact on class relations, on the value of land and the status of landowners and tenants in the Awash valley while dramatic nevertheless fell far short of the emergence of clearly stratified classes.

On the eve of land reform then peasants, by and large, already owned or controlled the land which they farmed. The impact which capitalist enclaves had made on the prevailing rural political economy was minimal. Haile Selassie had to some extent successfully channelled to the central government surpluses which had previously accrued to local elites. In any case, with the exception of development schemes such as SIDA's Minimum Package Programme attempts to intervene in peasant agricultural production in Ethiopia before 1974 were rare. Domestic ruling classes engaged in consumption and exchange, not production. Provincial dominant classes accumulated wealth in order to strengthen their position vis a vis the central state, with the objective of seizing control of state power and through that to gain access to greater resources. The other dominant class, merchants were excluded from political power by their inferior status. Merchants were invariably Muslims, it being a despised occupation for Orthodox Christians. The only class which was structured to transform production was foreign capital acting in partnership with the state. The absence of a domestic class with the capacity or will to transform peasant agriculture explains the persistence of subsistence cultivation and the concomitant failure to fulfil Ethiopia's agricultural potential.

## The persistence of peasant production

If a peasant revolution is one in which peasants deepen their control over the organisation and means of production then, without underplaying the degree to which the Derg regime was coercive in its relations with the peasantry, 1974 was, at least in this respect, a classic peasant revolution. The Ethiopian peasantry did secure an increase in their autonomy after 1974, in particular as a result of the 1975 land reform. In this section I argue that Government support for land reform emerged from an inability to control peasant actions in the countryside coupled with the need to claim credit for those actions and a recognition that the cohesion of self-sustaining agricultural communities can further the interests of ruling classes and immure the state from social welfare demands. The land reform represented to many observers the decisive break with the old regime (Brietzke, 1976). Land reform certainly unequivocally ended the economic support of the northern aristocracy and the southern landlords. In this respect it departed from the old regime, although it should be recognised that the alliance between the old regime and these dominant classes, particularly the northern aristocracy, was an uneasy one. At the same time, land reform entrenched peasants further in their existing mode of production. It is this dual action of land reform, the deepening of peasant production and the loss of landlord/aristocratic power, which has contributed to the view that after the revolution a predatory state fed on an undifferentiated peasantry. In this account I contest that view and I suggest that the state's interventions in production were attempts to compensate for the diminished access to peasant surpluses which accompanied land reform.

## The implementation of land reform

In March 1975 the Derg issued Proclamation 31 “..to provide for the Public Ownership of Rural Lands”. It is not my intention in this chapter to review the articles of the Proclamation ( see Cohen and Koehn, 1977 for a detailed treatment). The main feature of the Proclamation is that it abolished without compensation all private land ownership and disinvested the Church of its land and taxation rights. There was an expectation that land reform and in particular removing the burden of rent and tribute from producers would increase production. Hoben (1973) was exceptional in his finding that the structure of land-holding was not perceived by peasants to be onerous and that land reform, at least in the highlands, would be fiercely resisted by peasants. The more prevalent view from the end of the Italian occupation until 1975 was that land reform was the key to raising agricultural production and to transforming the rural economy. In particular it was thought that the rights of dominant classes to appropriate peasant surplus through rent and tribute acted as a brake on production (Coehn and Weintraub, 1975:8-17; Stahl, 1973; Bondestam, 1974). This view meshed with another perspective when the Ethiopian Student Movement and left organisations made demands for “land to the tiller” during the period of the “creeping coup”. Indeed, it has been argued that the implementation of land reform was a response to the demands of the Ethiopian Student Movement and represented an attempt by the Derg to secure political legitimacy and to undercut the political opposition by incorporating one of its key demands. A third pressure for land reform, and one which I argue in this account was decisive in convincing the Derg to issue its 1975 Proclamation on land reform, was in the actions of peasants who began seizing land in 1974.

The influence of the student movement and other left groups on the language of the proclamation is very clear:

Whereas, it is essential to fundamentally alter the existing agrarian relations so that the Ethiopian peasant masses which have paid so much in sweat as in blood to maintain an extravagant feudal class may be liberated from age-old feudal oppression, injustice, poverty, disease..and in order to increase agricultural production and to make the tiller the owner of the fruits of his labour, it is necessary to release the productive forces of the rural economy by liquidating the feudal system under which the nobility, aristocracy...have prospered by the toil and sweat of the masses (PMAC, 1975).

However, while the terms in which land reform was articulated did demonstrate the extent to which the socialist rhetoric of the students permeated the Derg's policy pronouncements, the assertion that the Student Movement were therefore instrumental in land reform is unjustified. Another key demand of the urban left, self-determination for oppressed nationalities, was never more than formally acknowledged by the Derg (and in practice of course the Derg pursued an uncompromising Ethiopian nationalism and territorial unity through civil war). The ways in which land reform was implemented suggests that peasant initiated land seizures were much more important in determining the timing and provisions of the Land Reform Proclamation than were the demands of urban groups for "land to the tiller".

The evidence on the extent of peasant involvement in land seizures is scant and

contradictory. However, it is certainly plausible that the Derg, preoccupied with urban unrest and with consolidating its claim to rule, took the path of least resistance: powerless to intervene in peasant seizures of land the Derg staked its claim to rule on representing itself as the initiator of land reform. One source (Ottaway, 1978:5) says that tenant farmers and agricultural workers started seizing land in 1974. Keller (1988:217) reports that in the summer of 1974 peasants in the south and west refused to pay rent. The Derg, according to Ottaway, ordered properties returned and landlord rights upheld until an official land reform proclamation was issued. That account lends credibility to Keller's finding that "...the land reform proclamation of 1975 signalled the Derg's determination to *retain the authority* for land redistribution" (Keller, 1988:175 - my emphasis).

The Proclamation outlined the ways in which land reform should be implemented. Peasant Associations were to be set up and were responsible for redistributing land and more generally for local affairs. The 1975 Proclamation charged Peasant Associations with implementing land reform, with minimal assistance from Ministry of Land Reform (MLR ) field staff. (MLR staff were working at a ratio of 1 field worker to each woreda, of which there were more than 500 with an average land area of 80,000 hectares (Cohen and Koehn, 1977:13)). The jurisdiction of Peasant Associations often, as in Gojjam, coincided with the old rist areas (Clapham, 1988:162). In this manner they drew on pre-revolutionary sources of legitimacy. The Proclamation made a distinction between rist lands and tenancy and excluded Peasant Associations in the former areas from the responsibility to redistribute land. Article 19 of the Proclamation gave peasants in rist areas "possessory rights over lands they presently till". This was in part a restatement of rist rights, although article

20 precluded the extension of new claims which had been, together with the litigation which accompanied it, a characteristic feature of *rist*. The Peasant Associations main responsibility in the north was to organise peasants in co-operative farms (Article 23) - an outcome which they singularly failed to achieve. In the south the Proclamation instructed Associations to redistribute land as soon as possible to roughly equal sizes no larger than 10 hectares. After 1977 Peasant Associations were essentially used to assist in military recruitment, collect taxes and maintain law and order.

There was considerable variation in local redistribution policies. Dawit Bekelle (1982) goes so far as to argue that land reform never progressed beyond making landlords' ownership of land illegal. He says that "rich" and "middle" peasants remained in control of their land and of the Peasant Associations. Land reform had no impact on the possession and use of land in the north before 1978 (Makonnen Getu, 1987:75,78; Cohen and Koehn, 1977:49) Redistribution took place in the south between 1975 and 1977 but was unevenly implemented (Makonnen Getu, 1987:75,78). The implementation of land reform was easiest in areas with absentee landlords or which had mechanised farming. Many peasants who were farming more than 10 hectares had not lost their excess land by 1977. Local control over land reform probably explains the otherwise surprising fact that such a radical policy was implemented with very little disruption to food production: recorded food-grain production increased by 17 per cent in 1975/76 and 9 per cent in 1976/77 over the pre-reform harvest of 1974/75 (Koehn, 1982:517).

I am suggesting that the implementation of land reform was uneven because the government's control over the process was at best minimal. To argue that in establishing Peasant Associations "the government risked loss of central control in

favour of immediate, locally-administered change" (Cohen and Koehn, 1977:10) is making a virtue of necessity. The widely-held view that the Derg orchestrated land reform by establishing Peasant Associations has led to erroneous perceptions of the strength of the Derg's domestic capacity. The unevenness with which land reform was implemented suggests that the relationship between the Derg's Proclamation and the reform was largely mythical: they could not prevent it being implemented in some areas and they could not enforce its implementation in others.

Misperceptions of the extent of the Derg's involvement in Land Reform have partly arisen from a tendency to confuse legal proclamations with their implementation. Gorike (1979), for example, devotes two-thirds of his account of Social and Political Factors Influencing the Application of Land Reform Measures in Ethiopia to discussing the 1975 land reform based on his fieldwork in September and November 1975 and April and May 1976. His discussion is therefore limited to giving information about the structures and organisation of land reform since the impact of the legislation by 1976 was minimal. Despite this limitation he still draws the unsubstantiated conclusion that the reform was egalitarian and uniform.

While the unevenness of land reform can be accounted for by showing the extent to which land seizures were locally controlled, it is more difficult to explain "the swift decline in the power of the landed provincial elite and their inability to resist this loss of power" (Cohen and Koehn, 1977:20). As Dessalegn notes, "To the surprise of everyone, this class put up virtually no resistance when it was stripped of its authority and its wealth. Moreover not a single hand was raised in its defence, not a single tear shed in its downfall" (1984:35). Land redistribution diminished class

differences in the countryside, but ownership of means of production other than land by former landlords and some peasants meant that rural class differences were not completely eroded (Dessalegn, 1984; Halliday and Molyneux, 1981). In many instances, after the initial disorder, landlords were able to organise the sale of their assets and maintained a relatively privileged position (Stahl, 1977:25-26). Nonetheless, the inability of landlords to resist the erosion of their class position is puzzling. Dessalegn argues that "what made the implementation of the reform relatively easy was that all or almost all of the land of the propertied classes was already in the hands of the peasantry" (1984:36). Since peasants benefited from land reform and particularly from being released from rent and tribute obligations, landlords were unable to mobilise the peasantry in defence of mutual interests. In the south, where class differences were represented in national terms, a landlord-peasant alliance would have been particularly difficult to sustain. Despite the difficulties involved in creating a cross-class alliance when national differences meshed with class position resistance did come from the local gentry, the *balabats*, in the south who raised a considerable, if short-lived, following (Dessalegn: 1984:35). Land reform was widely thought to reflect the pro-Oromo sympathies of the new regime - a perception which would have further undermined any possible basis for a landlord-peasant alliance against the state in Oromo areas. Unable to mobilise the peasantry in an alliance against the state, or to engage with the state in an alliance against the peasantry, landlords were powerless to resist: to that degree the actions of the Derg were decisive. However it may be the case that the more decisive factor was the weakness of landlord resistance which itself was indicative of the fragility of their class position and the importance of the central state in guaranteeing their status.

Dessaegn argues that the state's conversion of the nobility into bureaucrats after the second world war had made the class position of the northern aristocracy increasingly fragile (Dessaegn, 1984:22). The inability of landlords to act as a class against both the state and the peasantry is also indicative of the fragmented nature of political power in Ethiopia. Landlords competed with each other in order to strengthen their position vis a vis the central state: control of central state power remained the prize. Class solidarity within the ruling class was correspondingly weak. In the north the mobility of classes (including the immiseration of the aristocracy ) points to the low level of surplus production which was incapable of sustaining class stratification.

Land reform increased peasant control over both production and the distribution of agricultural products and diminished the opportunities for other classes to intervene in and transform agricultural production. The fall in surplus appropriation by non-producing classes simply increased on-farm consumption, rather than stimulating an increase in production (IBRD, 1983:40). In response to the fall in marketed grain supplies the regime initiated a series of measures which were designed to ensure that the state had access to sufficient grain to meet urban food needs and to give the state a considerable share of the import-export trade both directly and through taxation. These interventions are discussed below.

State interventions in production since 1974

### *State farms*

When the Derg took power in 1974 the state was involved in developing capitalist agriculture in partnership with foreign capital. Between 1960 and 1970 the area under

commercial farming increased from 6,500 to 350,000 hectares. By 1975 5,000 commercial farms were cultivating about 750,000 hectares (Makonnen Getu, 1987:51-52), slightly less than 5 per cent of cultivated land. These commercial farms were typically joint ventures between multi-national corporations and Haile-Selassie's government. In addition Chilallo had also experienced a transition to commercial farming and tenant evictions, following the success of the CADU initiative. Land reform stopped the evictions which had accompanied the success of CADU but 9,000 households were still removed to establish state farms (Cohen and Isaksson, 1987). Less than one-tenth (67,000 hectares) of commercial farm land was nationalised as state farms in 1975. The rest of the land occupied by commercial ventures was distributed to peasants. By 1977 the extent of land covered by state farms had fallen to less than 54,000 hectares. The amount of land cultivated as state farms did increase to 231,000 hectares when the Development Through Co-operation Campaign ended in 1981/82, this was still less than one-third of the commercial farming area of 1975. In subsequent years the area under state farms declined to 138,000 hectares in 1984/85 and only 59,000 hectares in 1991/92.

The production levels of state farms have been relatively low and the diversion of resources into this sector has been the subject of extensive criticism from diverse commentators. Farms took a disproportionate share of state-subsidised agricultural inputs, of resources, and of personnel yet their production levels were comparable to those of peasant farming. Small-holders with 94 per cent of cultivated land accounted for 91 per cent of output, while state farms with 4 per cent of cultivated land accounted for 6 per cent of output. In the five years to 1989/90 state farms had 2.5 per cent of cultivated land on average and contributed 4.5 per cent to production.

Individual holdings accounted for 92 per cent of cultivated land and contributed 91 per cent to production (National Bank of Ethiopia 1993). Between 1980 - 1985 40 per cent of government expenditure on agriculture was absorbed by state farms. State farms used over three-quarters of fertiliser, 95 per cent of improved seed, and 80 per cent of agricultural credit (EIU, 1989-90:14; Teshome Mulat, 1992:8). Cereal production, with the exception of 1974/75 was consistently above the pre-revolutionary output, as was coffee, sugar cane and cotton production. State farms contributed disproportionately to marketed food crops (Lynch, 1982:96). Almost all state farm produce was marketed, in contrast it has been estimated that less than one-third of peasant output is marketed (Teshome Mulat, 1992:7). Although the establishment of state farms has been given wide publicity their importance in terms of the overall character of agricultural production was minimal (IBRD, 1981:13).

#### *Resettlement schemes*

Resettlement schemes were begun in 1975 and have been used to resettle migrants from the 1973-74 famine in Wollo, the unemployed in Addis Ababa and, most controversially, Tigreans applying for food relief during the 1984 famine. Despite the considerable criticism which the Derg attracted by resettlement, it was a policy which had been advocated by a range of external consultants including the FAO and ILO (Clapham, 1988:193). In terms of the issues discussed in this chapter it is of most interest as an attempt to farm so-called virgin lands. The scheme at Pawe in Gojjam attracted substantial Italian investment and large-scale mechanised inputs. Discussions of resettlement tend to focus on the coercion involved and on its use as a political tool in the civil war with Tigrean insurgents. There is no reliable data on crops and yields or on costs and how viable the farms would be as a long-term

project (although Mengistu reported in 1987 that the settlers had been able to grow enough to meet their own food needs (Clapham, 1988:194)).

### *Agricultural producer co-operatives (APCs)*

Producer co-operatives can be viewed as an attempt to reorganise production in so far as they were a prelude to collectivisation, but the contribution of APCs to agricultural production was negligible. Collectivisation, the elaborate programme on the transition to socialist agriculture borrowed from the USSR notwithstanding, never took place in Ethiopia. By 1983/84 according to the government's own figures co-operative share of cultivated land was 1.3 per cent. Crop production in mid-1982 was 1 per cent (Makonnen Getu, 1987:7). The Ten Year Perspective Plan (TYPP) forecasted an increase in co-op share to 48.5 per cent by 1993/94. In fact in 1989/90, the last year of producer co-operatives, their share of cultivated land was only 5.3 per cent and of production 4.8 per cent. At the height of their expansion in 1988/89 they had nearly 8 per cent share of cultivated land and nearly 6 per cent of production. Producer co-operatives are usually understood to be indirect state interventions designed to transform rural production. This view is misleading: production continued to rely on the cultivation methods associated with subsistence farming and peasants continued to farm their own land for subsistence. It cannot therefore be argued that regardless of their insignificance in terms of a quantitative change in the rural economy, co-operatives represented a qualitative shift in production methods. Co-operative farm output was all purchased by the AMC for use in towns, and in the army. Like state farms APCs were an attempt to compensate for the further entrenchment of peasants in their existing mode of production which accompanied

land reform, the increased level of local control which this gave them and the increases in on-farm consumption which, together with the continuing low-levels of production, left very little scope for surplus extraction. In short APCs and state farms provided ways in which the government could guarantee food supplies for urban populations and soldiers. Aside from any role which it may have played as part of the government's military strategy during the civil war, resettlement was an attempt to extend large-scale farming without disturbing existing smallholder agricultural production.

### *Villagisation*

Villagisation is seen by some commentators as a prelude to collectivisation, although it was never publicly viewed as such by the Derg. The stated aims of villagisation were to: create the conditions for the proper utilization and development of national resources; close the gap in the provision of social services to the urban and rural populations; increase agricultural labour productivity; and to increase village security and defence. By concentrating households in a small area it gave state personnel and Peasant Association leadership more control over the distribution of agricultural products. Villagisation was introduced as a national strategy in 1985. There had been two earlier campaigns, in Bale in 1977 - 78 and in Hararge in 1984, both of which were intended to increase security. The 1985 campaign moved 12 million people living in 13 regions (all regions except Eritrea) into over 21,000 newly-established villages within three years. In Arsi region one million people were moved into villages within two months in early 1986. Arsi was the site of a SIDA funded rural development project which had succeeded in increasing yields.

Villagisation was implemented by Peasant Associations. Implementation strategies were designed by party secretariats and regional administrators until the National Villagisation Co-ordinating Committee was set up in June 1986 (Alemayehu, 1989:11). Although villagisation increased the burden of work for peasants, principally because of the longer distances between their homes and their fields, it did not disrupt production and there is no evidence to suggest that production levels were lower during the campaign. Guidelines stressed that construction work should not conflict with agricultural work. If the campaign in Shewa was typical then the construction of villages was achieved through the coercive mobilisation of peasants. Accounts of peasant attitudes to villagisation have been contradictory, ranging from willing engagement (Stahl, 1977) to sullen acquiescence (Henze, n.d.), coercion (Clapham 1987) and resistance -some 30,000 peasants in Haraghe fled to Somalia (EIU, 1990:15). A 1987 study of Arsi's villagisation (Cohen and Isaksson, 1987) found no evidence of coercion and no measurable impact on crop production. The co-operation of the Peasant Association leadership was essential to the success of the campaign and it can be assumed that the leadership benefited from villagisation, perhaps by easier tax collecting.

Most villages were abandoned once the Derg fell. The ease with which people returned to their old settlements suggests that villagisation had no lasting impact on either production or social relations. What it probably did achieve was to make peasants more vulnerable to state predations and therefore should be seen in the context of simple surplus extraction and increased opportunities for establishing government control over agricultural marketing (Cohen and Isaksson, 1987).

## The land policy of the Transitional Government

The TGE has not reversed the Derg's land reform and land remains the property of the state. Under the constitution of the FDRE land is provided by leases between the investor and the state as landowner. The terms of the lease stipulate the use to which the land will be put and this must be in agreement with the economic policy of the EPRDF, with the National/Regional Self-Government Proclamation and other relevant laws. Land is not formally leased to peasants, although the land-use tax remains in place. State ownership of land is guaranteed by the Constitution which states that "The right to ownership of rural and urban land, as well as of all natural resources, is exclusively vested in the State and in the peoples of Ethiopia. Land is a common property of the nations, nationalities and peoples of Ethiopia and shall not be subject to sale or to other means of transfer". The issue of privatisation of rural land was one of the two issues which generated any interest in the election campaign (the other was regionalisation). If the first issue that people will discuss is regionalisation, the second is the injustice of maintaining state ownership of land. This is perceived to be, as one businessman put it to me, "legitimizing the law of the Derg". (Interestingly, because it is one instance of how ingrained the rhetoric of socialism has become, entrepreneurs do not object to state ownership on the basis of fidelity to free-market principles but rather they argue that "the land should be returned to the people".) The contribution of the people in question, that is rural producers, to this debate is non-existent, although the EPRDF would presumably argue that since they stood for election, and won, on a platform of state ownership, their claim to represent the peasantry has been vindicated.

There is a view (taken by several NGOs in Ethiopia, by UNDP and by some

independent researchers) that state ownership of land is incompatible with peasant perceptions of security of tenure and that guaranteed user rights, if not outright privatisation, are a necessary precondition for rural development. Dessaiegn Rahmato, for example, has argued that the 1975 Land Reform was welcomed by small holders but that subsequent events, in particular redistribution and villagisation, underlined the fact that state ownership did not equate with peasant control over land. Furthermore, Dessaiegn's field work shows that peasants are aware that the TGE is selling off state assets and are concerned that the land which they farm will also be privatised (but not sold to the occupier). Dessaiegn has also pointed out that land transfers are already taking place in the countryside and that since this is illegal both buyers and sellers are being made more vulnerable by the TGE's land policy.

The TGE explicitly defend their land policy on the basis that urban centres do not have the resources to maintain rural migrants. The land policy aims to keep rural populations self-sufficient, making minimal demands on the state while commercial farming is established on what is now uncultivated land. Donor concerns about the economic and political costs of landlessness also explains what would otherwise be the World Bank's rather surprising objection to creating a market in land which would mean that "the poor will end up working for the rich as used to be the case in the past" (*Fies Omar, IBRD*). Providing that state ownership can guarantee peasants security of tenure neither the government nor donors are keen to see private ownership emerge. Donors, in particular the IMF, IBRD and USAID, have expressed very little interest in the issue of land ownership, perceiving other Derg policies, particularly the Agricultural Marketing Boards, currency valuation and input-

subsidies as having been more decisive in blocking growth (*Stephen Tucker, USAID*).

### *Urban Land*

Under the Derg urban land was allocated administratively, land use was free of charge, although the structures on the land were subject to a property tax. Under the new government the state still holds title to urban land but land is no longer given free of charge. Urban land is to be leased for periods of 50 - 99 years depending on the use and site. The general proclamation on urban land lease was published in December 1993. It stipulates that 90 per cent of revenues generated through land lease are to be used in the construction of low-cost housing and infrastructure. The proclamation provides for dividing municipalities into zones each attracting a different rate. Addis Ababa announced minimum floor prices for the auction of leases in May 1994 (Proclamation No. 2, May 20 1994), the only municipality to have done so. On one calculation, using mean minimum lease rates and conservatively assuming that 10 per cent of land in Addis Ababa would be leased, a total down payment of 15,960 million birr would have been necessary. That sum compares to, e.g., annual GDP at current (1994) market prices of 19,258 million birr.

Given the TGE's initial suggestions that on taking power nationalised property should be returned to its previous owners there was a general expectation that land would be privatised. Consequently auctions of leases were not well received. Minimum floor prices were very high and it was not clear what rights to transfer the lease there would be. In response construction and investment halted. In the event central government put pressure on Region 14 (Addis Ababa) to recall the

regulations. Revised regulations were issued in December 1994 in which minimum floor prices were eliminated and the transfer process was clarified. The intervention of donors was probably instrumental in persuading central government that Addis Ababa would have to recall the regulations. Operating costs for international agencies in the city would have increased substantially. However, despite all the concern over leases, only 20 small plots of vacant land had been released for auction by mid 1995: the situation vis a vis occupied land has still to be clarified.

### Commercial farming after 1991

The management of state farms is now under the control of autonomous enterprises, which replaced the State Farm Corporations. These new enterprises are state-owned and managed but do not have access to further state subsidies. In 1994/95 the government will start to divest state farms by transferring land to farmers, which will extend the impact of the 1975 land reform proclamation. They expect to have completed this process by 1997 (IBRD, 1994:12). Unoccupied lands suitable for commercial farming will be made available to agricultural investors (IBRD, 1994:13).

### *Agricultural investment under the Transitional Government*

Agricultural investment activities have to be licensed (Negarit Gazeta No. 52, Reg. 120 July 10 1993). Licences are issued, at a cost of 100 - 700 birr (about £10 - £70) on approval by the "appropriate authority" - presumably a regional ministry. Applications must be submitted, together with an Investment Certificate, a technical and economic feasibility study, and evidence that the land has been leased. Domestic investors, who invest less than 250,000 birr do not need an Investment Certificate,

but are still required to provide a feasibility study, acquire land and apply for a licence. Land must be leased from the relevant National/Regional Self-Government. Domestic investors are given priority in the allocation of land and "no land shall be given to private investors in a manner prejudicial to the rights and interests of the peasants"(Article 12(3)). The TGE has continued to direct resources to establish Producer Co-operatives and Service Co-operatives in the rural sector (Negatit Gazette No. 53 Proclamation No. 85 February 1, 1994). In 1992 co-operatives received one-third of the AID Bank's loan approvals .

#### The Transitional Government's agricultural strategy

The TGE's strategy for economic development is to increase agricultural productivity and thereby to increase the agricultural surplus so as to provide the inputs for agro-processing industries and to stimulate general industrial development. Industrial production will be for domestic consumption which should improve the links between industry and agriculture. This strategy which the TGE has termed "Agricultural-led Industrialisation", forms part of their New Economic Policy. There are perhaps echoes here of the Soviet Union's NEP which was intended to address the "scissors crisis". Increasing agricultural productivity and surplus is to be achieved mainly through opening up so-called virgin lands for the development of commercial farming. The government may find that its land-lease policy and the terms of its agricultural investment code may not attract investors. Between July 1992 and April 1995 337 projects with a capital of 17 billion birr were approved by the Investment Office. In the same period 16 investment certificates were issued to foreigners.

The question of whether uncultivated land is suitable for agricultural development

has not been fully explored. The Transitional Government, USAID, IMF and the IBRD all take the view that uncultivated land can successfully be taken into cultivation. The EEC and UNDP are more circumspect, and have suggested that cultivation has been restricted in the past to the Ethiopian highlands because the problems of irrigation, poor-soil quality and disease makes cultivation of the lowlands untenable. The total land area of Ethiopia is 122.6 million hectares of which 9.3 million is cropped, 3.1 million is fallow and 65.3 million is pasture land. Less than 10 per cent of the land at any one time is producing crops. As the FAO comment, "This has given rise to a lot of *unsubstantiated belief* that there is much unutilized good land to be brought under cultivation" (Teshome Mulat, 1992:5 - my emphasis). The integration of these hinterlands is further complicated by the absence of a rural infrastructure. These contradictions and obstacles aside, it can be seen that the EPRDF have at least the political will to stimulate a transformation in the conditions of production by promoting capital-intensive farming.

## Conclusion

The assumption that the maintenance and reproduction of state structures under the Derg regime depended on its ability to capture peasant surpluses, and what appears at times to be a determination to explain the failure of agricultural production as a consequence of diverting resources into socialist production has led analysts to stray from the evidence that, notwithstanding its reputation for having established a command economy, the Derg's interventions in agricultural production were negligible. Its interventions in the rural economy were designed to guarantee food supplies for the towns and to establish a monopoly over the export trade in coffee.

The single most important reform of the Derg era was the 1975 Land Reform. Far from releasing the forces of rural production, land reform further entrenched the rural economy in subsistence agriculture and removed the only class positioned to attempt a transformation of production: the foreign bourgeoisie. Land reform did erode class stratification in the countryside by removing the economic base of landlord and noble power. The position of landlords and the nobility as the dominant exploiting class of the rural economy which acted in alliance with state power until 1975, has contributed to the perception that since 1975 direct rural producers have faced the state, as its expropriators, directly. In contrast to that view I have suggested in this chapter that since 1974 there has been no attempt to transform productive forces in the countryside. The problem for the rural economy during the Derg period was not the absence of a market but the absence of changes in production. State farms aside, the occasional interventions of the Derg in production attempted to increase production by making peasants work harder, not by transforming production itself. It was to this end that the rhetoric of socialism was merged with the language of Ethiopian nationalism. This same strategy of enforcing a quantitative shift when what is needed is a qualitative shift, has been adopted by the EPRDF. The EPRDF's economic policy assumes that, in the language of the IMF, "market distortions" have led peasants to withdraw from the market: they have made a rational decision in response to prevailing economic indicators. This assumption ignores the logic of subsistence farming which is organised around production for use, not for exchange. The EPRDF's much publicised "faith in the peasantry" amounts to a conviction that peasants can be exhorted to work harder in the interests of local development. This slogan simply reflects the necessary continuation of extra-economic means by which

non-producers gain access to agricultural surpluses. The stagnation in production which accompanied land reform did not compromise peasant control over production and land, rather the reverse. This paradox, that a stagnation in production can be of benefit to the producing class, reveals the central contradiction of state led development initiatives: the interests of the peasantry and those of the state, if the state attempts to support a transformation in the mode of production, are incompatible.

Despite the Derg's limited involvement in production its attempts to transform rural production have usually been the focus of analyses of agricultural development, or more accurately non-development, since 1974. In short, the Derg's intentions have been taken for reality. The PMAC's own view that "key sectors of the economy have been brought under state control" (PMAC, 1984:10) has been echoed by independent researchers. Clapham, for example, cites as evidence of the Derg's transformation of the economy: the nationalisation of industry and of urban housing; land reform; the founding of the Workers' Party of Ethiopia (WPE) in 1984 and the introduction of central planning in the same year; and the Derg's commitment to collectivising agriculture. He asserts that the Derg's domestic control capacity is "very impressive indeed" (Clapham, 1987:156). Policy implementation was achieved through the Peasant Associations and the urban Kebelles, both then under WPE control. The villagisation campaign being the most striking evidence of the capacity of Peasant Associations to implement Government directives. (Clapham does concede that a distinction has to be made between the Derg's efficiency in creating institutions on the one hand, and its (in)effectiveness in using those institutions to meet their objectives, on the other (Clapham, 1992:114). Lynch (1982:94) argues in a similar

vein that "since the revolution, the economy has been fundamentally altered...". Stahl (1989), discussing Producer Co-operatives, Service Co-operatives and the Agricultural Marketing Corporation concludes that the Derg succeeded in "capturing the peasantry". Other commentators are less generous, if generosity it is, about the Derg's achievements at the level of economic transformation, while being equally keen to assert that under the Derg, Ethiopia experienced a social transformation (Griffin, 1992:1,2; Halliday and Molyneux, 1981:69; Ottaway, 1987:37). Berhanu Abegaz (1988:63) is unusual in his claim that the revolution produced only limited structural change in the economy. Even those accounts which accept that the Derg regime did not implement "perceptible structural changes" (Berhanu Abegaz, 1988:52) still treat the regime as implementing a development strategy which included producer co-operatives. Typically then, the assessment is that the Derg had impressive organisational capacity and that its control over key sectors of the economy, or the entire economy, was a major source of economic decline (Girma, 1992; Keller, 1988; O'Brien, 1994; Clapham, 1987; Makonnen Getu, 1987).

It is unfortunate that so much attention has been paid to the Derg's strategy for collectivisation since it has skewed perceptions of what did happen to agricultural production under the Derg. In practice the Derg's control over the economy was very limited and its attempts at intervening in production hardly less so. The undue attention which has been paid in the literature to co-operatives and to the ambitious projections set out in the Ten Year Perspective Plan has disguised the extent to which the explicit commitment of the Derg to socialising production contrasted with their timidity in forcing changes which would disrupt peasant production. The state does not have the resources to transform the rural economy. Disruption of the rural sector

on the scale which would be necessary to transform the way in which production is organised could disrupt the fragile ability of the peasant sector to meet urban and rural food needs. The small size of the state farm sector, relative both to total cultivated area and to the area which had been under commercial farming until 1975, is also indicative of the extension of peasant control which accompanied the revolution, and which has not been reversed by the ascension of the EPRDF to power. Dessalegn has commented of the pre-1974 literature that "There is a tendency on the part of some writers to exaggerate the magnitude of the "capitalist offensive" in agriculture" (1984:29). A similar comment could be made that post-1974 accounts have overstated the magnitude of the socialist transformation of agriculture.

In this chapter I have shown that land reform did not represent an extension of state control over the rural economy. Nor was its implementation indicative of state capacity, rather it reflected the regime's attempt to retain the authority for land seizures. I have argued that the effect of land reform was to extend peasant control over land and production. In response to the deepening of peasant conditions of production the Derg looked for other ways of meeting the food needs of the urban population and of the army. State farms, producer co-operatives and villagisation were all measures which attempted to remedy the inability of the regime to secure sufficient foodstuffs by extracting surplus directly from the peasantry. Rural class stratification was eroded by land reform but not to the extent that there was simply an undifferentiated peasantry on the one hand and the state on the other. A private sector has flourished in the rural economy under the Derg. It is active in transport, trading and other services as well as in small-scale manufacturing and processing.

USAID undertook an assessment of the private sector in 1992 and concluded that "privately owned and operated enterprises constitute the dominant form of economic activity in the country" (USAID, 1993:69). They wrongly attribute this to the dissolution of collective agriculture after the collapse of the Derg, which, they imply, greatly increased the cultivated land share and production share of family farms. As I showed above, land and production share of family farms never fell below 92 per cent and co-operative farms never had a land share greater than 8 per cent. Collectivised agriculture was never implemented under the Derg, and therefore the dominance of private enterprise cannot be attributed to the end of collectivisation. Increases in peasant control over production and product do not necessarily conflict with the objectives of the state or of dominant classes. The persistence of pre-capitalist agriculture alongside capitalist agriculture frees the state and dominant classes from organising re-production. The TGE's otherwise contradictory policy of maintaining state ownership of rural lands can be explained by their recognition that landless peasants increase social welfare demands. The Transitional Government has followed the Derg in not seeking to undermine peasant control over land and over the organisation of production. Like the Derg they have looked for alternative ways to meet urban food needs. They have made an ideological break with the previous regime insofar as they intend to encourage foreign investment into agricultural production and to develop commercial farming. The involvement of foreign capital in developing capitalist agriculture and industry is a strategy which was originally pursued by the Haile Selassie regime. In the next chapter I consider the impact which the Derg's policies had on industry and trade and I suggest that the conflict that has dogged successive Ethiopian regimes has been between industrial and merchant

capital, a conflict which has been all the more potent because it has been played out as a conflict between foreign and domestic capital.

## Chapter Three

### TRADE AND INDUSTRY

The central argument of this chapter is that the effect of regime interventions in the economy under the Derg was to strengthen the position of merchant capital. This took place in two ways. Firstly, in the absence of structural links between the countryside and the towns, which would compel peasants to engage with the market, peasants are forced by non-economic means to part with their surplus product. The interventions of the Derg in the rural economy have been directed to capturing peasant production surpluses through regulating trade. Neither the independence of rural producers, which stems from their control over land and over the conditions of production, nor the physical isolation imposed on them by an underdeveloped rural infrastructure has been eroded or transformed by the Derg's actions. Secondly, nationalisation of foreign assets expanded the opportunities available to domestic capital and curtailed the activities of the one class which was likely to initiate a transformation in production: the foreign bourgeoisie.

This chapter begins with an account of Ethiopia which shows the considerable extent to which trade and administration are central to urban life. It goes on to discuss the ways in which successive Ethiopian governments have sought to intervene in grain markets and the impact which this has had on private trade. I then turn to state interventions in the import-export trade under the Derg and I consider the impact which these interventions had on both domestic and foreign capital, as well as on the state itself. Finally I look at trade regimes under the Transitional Government and I examine the impact which these have had on grain and coffee markets.

Ethiopia's rural political economy is characterised by the absence of conditions for

the transformation of production and the preoccupation of the dominant merchant class with trade and other unproductive activities. This has not been clear in other accounts of post-revolutionary Ethiopia because the Derg's stated commitment to intervening in production has given rise to the mistaken view that a class of direct producers, peasants, confronted (or at least faced) a class of expropriators: state personnel. In fact, as I show in this chapter, state access to agricultural surpluses has been maintained by merchants who in turn profit by state intervention in the rural economy. The Derg's interventions, notwithstanding their assertions to the contrary, have expanded the access of domestic capital and of the state to profits from trade rather than transformed production. State regulation of trade created opportunities for merchants which cemented the alliance between merchants and the state. Despite the government's efforts to control these markets, the persistence of an illegal trading regime increased merchant profits. This analysis explains characteristics of the political economy which otherwise evade explanation. In particular, how the peasantry has successfully "resisted" attempts to transform rural production, and why merchants remain the staunchest supporters of the Derg, or at least the most vociferous critics of the TGE's market economy. It should also, by stressing the pre-capitalist structures of the rural economy, expose the deficiencies of the TGE's agricultural strategy which is based on the erroneous assumption that peasants are "economic men" in the sense in which that term is used in liberal economic theory.

#### Trade and traders in Ethiopia

Historically Ethiopian commerce has operated in two more or less discrete spheres:

agricultural goods and locally produced manufactured goods have circulated in the internal market under the control of domestic capital; external trade was dominated by foreign capital in concert with the state. The state has consistently used its resources to exert control over and to accumulate revenues from the import - export trade. Nationalisation of foreign assets in 1975 increased the Ethiopian private sector's and the state's share of the import-export market, while ensuring that control of the domestic market remained with domestic private capital.

### *Domestic traders*

In Europe the growth of towns was linked to the development of industry. In Africa urban settlements have been more often linked to markets and centres of government administration. Ethiopia is no exception to this general rule. Urban centres developed in Ethiopia without an industrial base (Berhanu, 1988:63). In the north markets and government administration formed the nucleus of urbanisation. Trade, government administration, and auxiliary services continue to dominate urban life. The urban population mostly works in sales and services. The private sector employs most of the urban labour force or about 15 per cent of the national labour force (Berhanu, 1988:62).

Every small town in Ethiopia has at least one hotel and restaurant and most have several. These establishments cater for migrant workers and market traders and are the most conspicuous signs of economic activity. In the larger towns the market area and the main road leading to it will have a few general grocery shops selling fruit, vegetables and basic commodities. There are also branches of the Commercial Bank of Ethiopia in the larger towns. Petty-traders, usually boys and young men, sell matches, cigarettes, pens and newspapers. There is usually a government office and

other signs of an official presence - a policeman or soldier, memorials painted with official slogans, and campaign posters.

Trading dominates the economic life of the urban populations. Domestic trade centres on daily and weekly markets in provincial towns and villages. Goods are overwhelmingly agricultural with a few imported goods. Some of the larger towns have markets with permanent stalls, these mostly date from the Italian occupation. In Addis Ababa the central market occupies a large site of permanent stalls and is said to be the largest in Africa. In most provincial markets however market “stalls” are temporary structures, often no more than a length of material on which a small variety of goods are displayed. These markets are the meeting point between the rural and urban economies, and also, at least in Addis Ababa, break down the distinction between domestic and long-distance trade by selling imported manufactured commodities. In addition to these economic functions they are also of course a centre of social life and of communication.

### *Muslim traders*

There is usually a Mosque near the market. In Addis Ababa the Grand Mosque, for example, sits on the edge of the Mercato. The proximity of Mosques to markets increases the perception of a deeper association between the two, underlining the common idea that traders tend to be Muslims. There is no comprehensive account of the role of Muslims in Ethiopian trade. In her account of The Government of Ethiopia, Perham notes that historically trade in Ethiopia

...was despised and... once the Muslims had come between Ethiopia and the civilized world, they naturally became the economic intermediaries. But they also penetrated the country and absorbed all

but the petty trade in the interior. The rulers adopted towards them that ambivalent attitude common amongst European kings towards the Jews, scorn and hatred on religious and political grounds: partnership and dependence in economic matters (Perham, 1969:178).

The first Muslims on the East African coast were merchants who set up trading stations as entrepôts for the inland trade. Ethiopia supplied the coastal towns on both sides of the Red Sea with fresh fruits and cereals between the thirteenth and sixteenth centuries (Taddesse Tamrat, 1972:88). Muslim traders handled the trade in ivory and slaves, the former hunted by Christian kings and the latter captives of military campaigns who were reduced to slavery. Muslims had a nearly complete monopoly on long-distance trade in the whole region acting as agents of the King and as independent traders. In both roles they benefited from the King's concern to ensure the safety and freedom of trade routes (Taddesse Tamrat, 1972:87-88,132,139,140). The Islamisation of Ethiopia was superficial and even the conquest of Imam Ahmad Gran had little impact on the religious character of the highlands. Harar was exceptional in this regard. Harar developed as an independent city-state and a centre of commerce and Islamic learning. Harar was occupied by Egypt from 1872 and became an Ethiopian possession in 1887 having been under British control, following the British takeover in Egypt in 1882. During the Egyptian occupation trading from Harar had greatly expanded. Whereas only four or five major annual caravans had left the city previously, during the occupation seventy-five caravans arrived from Berbera and Zeila and 580 went out from Harar (Marcus, 1975:75). Traders and "propagandists" were the medium by which the surrounding Oromo converted to Islam. Throughout southern Ethiopia, Islam was introduced by

merchants and, according to Trimingham, the word for merchant naggadi is the universal term for Muslim (1965:140).

In the contemporary period the perception of a connection between merchants and Muslims persists and there are certainly grounds for accepting this view. In addition to the historical background outlined above, and the Mosque-market connection there are also other indicators: the exclusion of Muslims from government office before 1974 - forcing them into other areas of activity; the reputed outcast status of merchants in Orthodox Christian communities; anecdotal evidence on the predominance of Muslim shopkeepers, stall holders and taxi-drivers; the reputation of the (mostly) Muslim Gurage for petty- trade. Nevertheless I think it should be underlined that there is as yet no detailed research on Ethiopian merchants. The census data gives breakdowns of economic activity by sex but not by religion or ethnic group. It is therefore impossible to show whether or not Muslims dominate trade, as they are reputed to (Markakis, 1981:9; Chege, 1979:367; Lipsky, 1962). There are fragments of data which would suggest that Orthodox Christians have long controlled a sizeable part of Ethiopian domestic and international trade, the involvement of Christian rulers in the slave trade, discussed below is a case in point. Given that trade also dominates economic activity in the urban areas in the Christian highlands it seems unlikely that it has remained a despised occupation for Orthodox Christians. It is more likely that relegating trade to outcast groups functions at an ideological or political level rather than reflecting the true exclusion of Orthodox Christians from merchant activities. (The exclusion of merchants from society by such devices as outcast status was a common feature of many pre-colonial African states in which the government depended for revenue on its control of long-distance

trade. This co-existed with a relatively unconcerned peasantry whose economic life was linked to the state, if at all, by merchants. The outcast or stranger status of merchants was a mechanism by which the coherence of peasant production was isolated from the potentially disruptive impact of this trade (see Meillassoux, 1971; Coquery - Vidrovitch 1978). If Muslims do dominate trade, or if government officials perceive them to do so, then that could offer a clue to the efforts of both the Derg and the TGE to give Muslims full civil rights. Similarly, if Muslims did form a coherent class of traders their exclusion from political power under Haile Selassie's regime, having consolidated economic power, may have contributed to the downfall of the regime. At the very least Muslims traders would have been aware of the potential benefits that could flow from a change in the political order.

#### *Urban trade*

The population of the urban areas has increased dramatically since the last census was conducted in 1984. In 1984 Addis Ababa had a population of less than 1.4 million, by 1995 this had reportedly risen to 2.5 million. A census was taken in 1994 which has not yet been published. About half of the reported population growth can be accounted for by natural increase. The influx of demobbed soldiers and other people displaced by the war is likely to account for a substantial part of the rest. While these remain matters of speculation for the time being, it is certainly the case that there has been no structural change in the political economy over the last ten years. The picture provided by the 1984 census is therefore a fairly accurate portrait of some aspects of contemporary city life in Ethiopia.

What industry there is in Ethiopia is concentrated in Addis Ababa, yet this too gives the impression of being overwhelmingly a centre of trade and administration. An

analysis of the 1984 census demonstrates the extent to which trading dominates the urban economy. Of the 1.4 million people living in Addis Ababa in 1984, about one-fifth were aged under 10 and therefore assumed to be economically inactive. Of the other 1 million just under half were working or available for work. Of the other 564,000, nearly two-thirds (58.2%) were students and nearly one-third (28.9%) were housewives; less than 10 per cent together were pensioners, disabled, prostitutes and beggars. Of those who were working, or available for work, 10 per cent were unemployed. One out of every five people (19.5 per cent) were employed in the wholesale and retail trades. One in four (24 per cent) were personal household staff and another fifth worked in public administration and defence. Only 13 per cent were in manufacturing.

Nearly one-quarter of Addis Ababa's working population were self-employed at the time of the 1984 census, and nearly one-third (30%) were employees of private organisations. Two-fifths (40.7%) were Government employees, but less than a quarter of these were in manufacturing, or industry (including utilities). In summary in a city of roughly one and a half million people less than one-third were officially working. The rest were students, housewives, beggars, prostitutes, unemployed or dependent. Of the third who did work most were self employed or working for a private organisation. Less than 10 per cent of the population or about 10 per cent of the population aged 10 and over were in industry or manufacturing. The largest single source of employment was sales and services. The vast majority of sales workers were working proprietors in the wholesale and retail trade. One-third of working-proprietors were women.

Addis Ababa is by no means exceptional in this respect. In all urban areas

(designated as such in the 1984 census) trading vies with government as the single largest occupation group engaging some one-third of the economically active populations. In terms of numbers the most significant sub-division of trade is the retail and wholesale trade in locally-brewed alcohol: Tej, Tella and Katikala. These retailers account for three-quarters of all retailers in Addis Ababa and as much as 90 per cent in other regions. Trade in these beverages is overwhelmingly dominated by women. Sales workers in all urban areas together account for one-third to one-half of total employment and nine-tenths of these are working proprietors in the wholesale and retail trade: in other words, merchants and petty traders. More women than men are involved in trade. This is particularly true in rural areas but also holds true for urban areas: overall, about two-thirds of registered traders are women. In keeping with this profile, the 1984 census shows that government employment in the urban areas accounted for only about one-quarter of total employment with self-employment accounting for about one-third and private organisation employees a further one-third. These figures reflect the government's involvement in a small number of large-scale, capital intensive industries.

This picture of an economy largely orientated to trade and, at least in terms of the numbers of people involved, particularly to petty-trade and petty-commodity production (such as brewing tej) is very indicative of how low the level of urbanisation and industrialisation is in Ethiopia. This pattern of non-industrial urban development has left the towns in many ways dependent on the countryside. The countryside spills into the towns so that even in Addis Ababa the mass of the population continue to grow food and to have deep social and economic links with rural life. These links have protected governments from the political unrest which

would otherwise be associated with its inability to deliver social goods to the vast majority of the urban population. Yet the urban populations are by no means self-sufficient in the way that, or to the extent that, peasants are. Part of the task of government then, if for no more virtuous a reason than to stay governing, has been to ensure that urban populations have access to sufficient quantities of grain at affordable prices. To this end successive Ethiopian governments have attempted to regulate the grain trade.

#### Government control of grain markets

Attempts by the Imperial Government to intervene in grain markets did not begin until 1950. The importance of regulating prices and supplies for the urban centres had increased with the expansion of urban areas following the Italian occupation and the fall in productivity associated with the disruption caused by the Italian occupation, as well as the continuing decline in the fertility of the soil. The first move to intervene in grain markets was the founding of the Ethiopian Grain Board in 1950. The Board aimed to increase the volume and quality of grain exports and to control export prices and issue licences to traders. While it did succeed in controlling export prices, it never managed to regulate domestic prices. In 1960 a Grain Corporation was set up to hold stocks, stabilise grain prices, and promote grain production for export. Its operations were limited to eighteen secondary markets and it failed to regulate or influence grain markets. Until the mid-1970s the market share of domestic supply was less than five per cent. The Imperial Government also attempted to use the agricultural development schemes at Chilallo, Wollita and Ardu to intervene in grain markets by charging them with the role of buying and storing

crops and selling on when Addis Ababa market prices rose. This strategy to control grain markets was also largely unsuccessful. An initiative to regulate consumer prices in the major towns also failed due to the strong influence of the private sector. In 1974 during the “creeping coup” the Board issued a price regulation to fix gross profit for grain retailers at five per cent, the regulation was ignored. In short the period from 1950 - 1976 was

...marked by a series of ineffective grain marketing and pricing regulations and an insignificant role of marketing boards in the domestic grain trade. In the absence of effective interventions, the private traders handled almost all the surplus grain entering the primary, secondary and central markets and played a dominant role in the formation of grain prices (Alemayehu Lirensu, 1993:80).

Government attempts to control grain markets were continued under the Derg. In 1976 the Agricultural Marketing Corporation (AMC) was established with the aim of participating in grain markets, procuring and distributing inputs and maintaining a national grain reserve. The Marketing Corporation absorbed the Grain Corporation and the Agricultural Inputs Supply Service. A reorganised and renamed Grain Board (it was now called the Ethiopian Grain Association) was left with the role of administering price controls and licensing traders. Although the AMC entered the market in order to compete with private buyers in 1977 the Ethiopian-Somali war effectively blocked this and no grain policy was in force between 1977 and 1979. In this period two-thirds of marketed grain went to the private sector who offered higher prices. The fact that one-third of grain continued to go through the Corporation is testimony to the lack of control which peasants exercise over their participation in

the market since in the absence of storage facilities and transport, they were left with no choice but to sell to the AMC. Nevertheless, marketed grain was in short supply since land reform because of increases in on-farm consumption. This led to a food shortage in urban areas which increased food prices at a time when urban wages were stagnating. In 1979 the AMC was reorganised with the objective of nationalising the wholesale trade so as to supply urban and public (especially military) grain needs. As part of the reorganising of the Corporation's functions, Urban Development Associations (Kebelles) and Service Co-operatives were set up and in Addis Ababa the Addis Ababa Basic Commodities Supply Corporation linked the Marketing Corporation to the Kebelle grain stores. The establishment of the Addis Ababa Basic Commodities Supply Corporation (BCSC) also brought domestic trade under partial government control from 1980. The BCSC was charged with distributing grain to the 25 city Keftengas (highers), who distributed it to the Kebelles. Each Kebelle distributed rationed grain, sugar and other commodities to local households. Kebelle officials' access to goods at prices one-third to one-quarter below the open market price provided channels for linking the formal and informal economies.

The purpose of the AMC was to procure sufficient quantities of grain to meet urban food needs. In 1981/82 urban food needs were estimated to be 10.2 million quintals, of which the AMC managed to supply less than half. The AMC made four-fifths of its purchases in the four major surplus-producing regions of Shoa, Gondar, Arsi and Gojjam and supplied grain, via the Basic Commodities Supply Corporation to Addis Ababa, Harar, Assab, and Asmara. Most of the AMC's buying, 85 per cent according to a FAO report (Teshome Mulat 1992:7), took place in three regions, selling mainly in Addis Ababa. Between 1980 and 1990 the Corporation brought 4.2 million tons

of grain of which over two-thirds originated in the peasant farm sector. These purchases were distributed to the army, food processing plants and urban populations. Despite the restricted operations of the AMC it barely had the operational capacity to meet even those limited objectives (IBRD, 1983:47). In a 1983 report the World Bank found that

..the capacity of the AMC would appear to be stretched to the limits.

This point was made to us by virtually everyone we talked to and was evident in the field. Grain is stored in the open canvas. Trucks are not available. Collection stations are not manned full time and communications between central, regional and branch offices are limited (IBRD, 1983:47).

The instruments for appropriating grain were grain quotas, fixing grain prices, banning trade, restricting inter-regional grain flows, rationing, and controlling market days. Grain quotas were imposed on farmers and licensed traders in 1980. Over three-quarters of quotas were on the three main grain producing areas of Shoa, Gojjam, and Arsi. Eritrea, Tigray, and Gamo-Gofa, which were grain deficit areas, were exempted from meeting quotas. Quotas were set at the centre and their collection was organised through Grain Purchase Task Forces. Penalties for not meeting quotas included the seizure of assets, temporary imprisonment, being denied access to Service Co-operatives, and being prohibited from selling grain on open markets. Licensed traders were required to sell half of their purchases at fixed prices to the AMC. The penalties for evading these measures included fines, imprisonment, confiscating grain, and cancelling licenses. Extension workers and rural development workers in Shoa were fined one-months salary and lost other perks if they failed to

collect quotas. The Ethiopian Grain Association (the renamed Grain Board) was dissolved in 1979 and the fixing and controlling of grain prices were left to Grain Purchase Task Forces who set prices at regional level. Consequently prices varied greatly between regions, e.g. teff was 30 birr per 100 kilograms in Gojjam and 47 birr in Gondar. These price differences offered considerable scope for smuggling. Regional pricing was replaced by uniform pricing in 1980. These measures must have still been insufficient to get an adequate supply of grain to the markets because in 1982 grain wholesaling and retailing was made illegal in surplus-producing regions. In 1982/83 over eleven hundred grain traders had their licences revoked in Gojjam, but it was still unclear whether or not small-scale trade was legal. Road blocks were set up on major trade routes from surplus-producing regions and roadside markets were closed down. These measures still failed to get adequate grain to urban centres. The kebelle stores met less than half of urban grain needs between 1980 and 1989. What these measures did was to provide "...the basis for the emergence of a new class of speculators and rent seekers" (Alemayehu Lirensu, 1993:94). Traders evaded market controls by entering parallel markets: in 1990 more than two-thirds of grain passed through parallel markets. Farmers reacted to grain controls by switching crops, refusing to sell to the Marketing Corporation at markets, and also entered parallel markets.

#### Private traders in domestic markets

Private trading in grain is under researched. While there were several studies on grain marketing until 1973 since 1974 research has been discontinued. World Bank reports are the main source for what little information there is on private trade under

the Derg. According to these reports, private traders continued to operate in grain markets and were more important than the Marketing Corporation in getting grain supplies to the urban areas. In 1983 for instance private traders were still handling nearly three-quarters of marketed grain supply (IBRD, 1983:42). Although the AMC bought and sold at fixed prices the IBRD found that private enterprises in trade (as well as in construction and manufacturing) made substantial profits in part because of the dual pricing system (IBRD, 1980: iii). In addition to selling to the Marketing Corporation at fixed prices, peasants also sold their marketable surplus to private traders and directly to consumers at town markets. In fact private traders marketed almost the entire surplus in most regions (IBRD, 1981:16). Of 4.6 million quintals purchased by the AMC in 1981/82, for example, two-thirds were supplied by merchants. With considerable marketing and sales through private channels and parallel open markets over which the government exercised no control, producer and retail prices followed the relative strength of market forces. Therefore the average price obtained by farmers for their marketed output was considerably higher than the fixed procurement price of the AMC (IBRD, 1981:17). However quotas were levied on traders and in some regions with large AMC procurement quotas and severe restrictions on trade, farmers could not benefit significantly from parallel markets (IBRD, 1987:37). Reforms were introduced by the Derg in 1990. Before the reforms, merchants were required to sell half of their purchases (one-quarter in the case of goods which were suitable for export) to the AMC. Until January 1988 there were regions where the quota on traders was 100 per cent, and in some areas merchants were prohibited from operating at all (Teshome Mulat, 1992:9).

Private trading was subject to a range of controls from 1979. However the scope for

private trade was still large and profits were substantial. Harbeson found that private traders and military personnel were better able to avoid the impact of inflation, income freezes and poor terms of trade than others (1988:213), and Girma Kebede (1992) agrees that the low-level at which state prices were set encouraged an illegal market to flourish. An IBRD study in 1981 found that the dual pricing system allowed merchants to accrue substantial profits and that private traders were handling one-quarter of imports and one-third of coffee exports (IBRD, 1981:iii). Traders dominated the export trade in minor export items like pulses, raw-hide, and skins. Retail traders, buying their stock from both legal and illegal channels of supply were, like grain traders, able to make large profits (IBRD, 1981:18). In 1983 in the Ten Year Perspective Plan, a government document which could be expected to overestimate government market share, reported that only 43 per cent of wholesale and 25 per cent of retail trade was under the control of state trading organisations and mass organisations. Government control over grain markets was relaxed from 1988 and grain production and marketing were completely liberalised by June 1990. Nonetheless, in a second IBRD study, in 1990, the authors noted that although the number of traders licences had been progressively reduced trading was still highly lucrative in part because of the "large implicit incentives for rent-seeking trading activity and for arbitrage between the official and parallel markets" (IBRD, 1990:4).

The IBRD's 1983 report also found that despite government attempts to regulate merchant activity through licences, both licensed and unlicensed individuals continued to operate. They found that "there seems to be little understanding of its [the private sectors] operations or the volume it handles" (IBRD, 1983:42). This

cautionary note on the availability of data on private trade has also been sounded in other sources (Harbeson, 1988:210; Clapham, 1988:125). Whether from political sensitivity or simply the government's inability to track the workings of parallel markets the database on private trade is very poor. Nevertheless what is clear is that trading dominates urban economic activity and that the market is entirely controlled by Ethiopian capital. State interventions in the market have increased rent-seeking activities alongside an increase in profits. In the following discussion on the external market I show that government policy after 1974 led to the expansion of Ethiopian private capital into import-export trading.

State interventions and private capital in the import-export trade under the Derg

#### *Historical background*

Long-distance trade in the modern period, at least until 1974, was controlled by foreign companies and individuals (Duri, 1969:73; Markakis, 1974 ;Assefa Bequele, Eshetu Chole 1969). Before the 1974 revolution very few nationals were involved in external trade. Mohammed Duri, Minister for Planning and Economic Development with the Transitional Government in 1995, commented in his 1969 survey of foreign investments that "Ethiopia is still a country of petty traders. Foreign trade control by expatriates has a very close connection with the domination of small-scale industry by foreign residents"(Duri, 1969:73). While foreign capital did dominate external trade until 1974 it did so in a symbiotic relationship with the state, as the following historical narrative suggests.

External trade, and government attempts to raise revenues from taxes on trade, has a long history in Ethiopia (Marcus, 1975:57-76). Menelik's incorporation of the

south into the Ethiopian Empire brought long-distance trade under the control of the Shoa ruler threatening the balance of power between Shoa and Tigre (during Yohannes' reign). The Basso market in Gojjam was Ethiopia's most important distribution centre. An important trade route ran from Gondar through Debra Tabor and Debra Marqos to Basso, which also served Sudan. The diversity of the market at this time has been commented on by Marcus who notes that, "Muslim traders from the south-west brought gold, ivory, musk, skins, coffee, agricultural products, and slaves which they exchanged for cotton, textiles, jewellery, glassware, copper, brass, tin, ..firearms, and ammunition"(Marcus, 1975:68). Ethiopian Christian traders transported these products to Gondar and from there on to Massawa or the northern Sudan. Shoa was in competition with Gojjam for this trade and for the Kaffa trade and Menelik was granted control of Kaffa by Yohannes following the defeat of the Gojjam negus in battle. The slave trade was of particular importance until the mid - nineteenth century. Muhammad Ali's unification of most of the Red Sea coast under Egyptian rule stimulated a rise in the Ethiopian export trade in the nineteenth century. The slave trade increased significantly in this period: 6,000 - 7,000 people were enslaved and sold between 1825 and 1850 (Abir, 1968:69). In two months in 1883 3,000 slaves were brought by Adari traders at Abdul Resul. Menelik, as a Christian, affected not to be directly involved in this trade which was conducted by Muslim agents. The slave trade was forbidden to Christian Ethiopians by civil and ecclesiastical law and was organised by Muslim traders (Abir, 1968:55). However many slaves were supplied to Menelik from the tribute from the south-west, especially from Jimma, Leka, Guma and Gera, all of which were slaving countries. Marcus comments that Menelik "..was indirectly Ethiopia's greatest slave

entrepreneur” (1975:73). He collected a tax on every slave brought into Shoa and a tax for every slave sold there. Gold and ivory were royal monopolies but Menelik also bought and sold other commodities including hides, furs, wax, honey and ghee. Both the slave trade and the ivory trade had decreased in importance by the early twentieth century to be replaced by coffee exports (McClelean, 1986:177).

Until the Italian invasion the greater part of trade in Addis Ababa was in the hands of British, Indian and Arab firms. In 1944 the Chamber of Commerce in Addis Ababa had 215 members of whom only 17 were Ethiopians (Perham, 1969:178). The largest import-export company in Ethiopia, until it was destroyed by the Italian occupying forces, was an Indian company, Mohamedally, which handled all ivory exports from Addis Ababa (Bahru, 1991:65). Whereas trade in the neighbouring countries increased significantly under the impact of colonialism, trade from Ethiopia remained relatively static: trade in the ten years from 1930 can be estimated at £2 million compared to £15,000 million for the Gold Coast, £6 million for Tanganyika and between £11 and £15 million in Sudan (Perham, 1969:178-179). Italy expelled the old merchants and replaced them with Italians under whose influence imports soared by nearly 3,000 per cent while exports dropped to below pre-invasion levels, although they recovered after the restoration.

In the north urban centres evolved around trading zones. In the south garrisons or fortified towns, *ketema*, were established in the wake of military campaigns. Whilst the initial impact of the military campaign would have been damaging to trade, and the subsequent imposition of high taxes hardly less so, the rising importance of coffee exports provided opportunities for co-operation between central government, *neftegnas* (soldier-settler landlords) and foreign merchants. The transfer of coffee

from producers to merchants was organised by, and to some extent compelled by, the *neftegna*; central government provided the infrastructural development (either directly or through the granting of concessions) to facilitate trade; merchants were a rich source of tax revenues for provincial and central government. Menelik's concession to France to build the Addis Ababa - Djibouti railway can be viewed as part of a strategy for maintaining state control over long-distance trade. While control over coffee revenues was a source of conflict between Addis Ababa and the regional centres the increasing importance, through infrastructural development, of Addis Ababa as a central point for distribution sidelined regional power-holders. Central government control over trade routes increased after the Italian occupation with the establishment of the Ethiopian National Corporation, the reform of Customs and Export Duties Proclamation (1943) and the founding of the National Coffee Board (1957) (Bahru, 1991:197; Keller, 1988:123).

#### *Trade regulations under the Derg*

As with domestic trade, the Derg also introduced legislation and created institutions designed to increase the state's share of external trade. Retail and wholesale trade remained largely in the private sector while coffee exports, pharmaceuticals and construction were in both private and public control. Not more than 10,000 people across the country work in the import-export trade. Unfortunately I have not been able to find any financial data by which trading could be ranked in terms of its economic significance. Nor is it possible to identify how many of the 10,000 or so import or export traders are working on their own account or are employees. It is likely, given the financial resources that would be necessary to organise participation in the export-import trade, that a substantial number of these 10,000 traders have

significant wealth.

The Derg introduced legislation to control private trade and to increase the state's share of domestic markets and of import-export markets. The import-export trade was not affected by the initial wave of nationalisations. Nevertheless, by 1981 the state was involved in two-thirds of the export and three quarters of the import trade (Keller, 1988:247), or at least of that part of trade which circulated in the formal economy. Legislation was enacted in 1975 to take industrial and trading concerns into government ownership ("The Government Ownership of the Means of Production" Proclamation 26, February 7 1975). A second Proclamation was published which excluded from its provisions individuals or organisations already in operation, and construction work, surface transport, inland water transport, the publishing of newspapers and magazines. The Proclamation restricted the issuing of Industrial, Foreign Trade and Domestic Trade Licences (all dating from 1971) to individuals who did not have a permanent job. Licences could be issued to partnerships of not more than five members in the case of industrial activities. Licences could only be issued for one activity, unless the individual was engaged in the import or export trade or industry when this provision could be waived at the discretion of the Minister of Commerce and Industry. With the exception of wholesalers of agricultural products, hides and skins, capital was limited to 300,000 birr. Retailers were limited to capital of 200,000 birr. Industrial private capital was limited to 500,000 birr. Penalties for not complying with the regulations of the Proclamation were two years imprisonment and/or a fine of up to 10,000 birr.

The government's direct control over sales of peasant produce was exercised by the AMC for grain purchases and by the Coffee Marketing Corporation for coffee. Trade

in all other farm commodities was exclusively in the hands of private traders who evaded government controls of exports and sales through the illegal economy. For the last 10 years eastern Ethiopia, northern Somalia and Djibouti have been an informal free trade area. A significant amount of Ethiopian coffee and livestock exports go through south Somalia and are exported from there to Saudi Arabia and the Gulf (Henze, nd:42). Smuggled exports are estimated to have been one-third of the official by 1991/92 (O'Brien, 1994:68). Despite the extent of tax evasion, taxes raised on sales and export duties accounted for about one-third of total government revenues from 1981 - 1985 and from one-fifth to one-quarter from 1987 - 1993. By contrast taxes raised on agricultural income and land tax accounted for about 4 per cent between 1981 - 1984 and two per cent or less thereafter.

In summary, the effect of the post-1975 reforms has been negligible for domestic trade. Indeed attempts to regulate certain sub-sectors (principally essential foods) through a government-owned distribution network increased the profits of private traders. Whilst nationalisation of the import-export trade increased the state's market share, the impact on Ethiopian merchant capital, which finally secured a market share in external trade, was more significant.

### *Coffee*

Coffee production continued to be in the control of small holders and the trade in coffee has remained with merchants: often the same individuals who had controlled the trade under Haile Selassie (Halliday and Molyneux, 1981:111). The Derg increased the state share of coffee exporting, but more than two-thirds remained with private capital - both foreign and Ethiopian (Teshome Mulat, 1979:51).

Coffee is the largest export commodity. Until 1988/89 it accounted for nearly two-

thirds of foreign exchange (Teshome Mulat, 1992). Two-thirds of total agricultural taxes come from agricultural export taxes: coffee accounts for 90 per cent of these (Teshome Mulat, 1992) Coffee's share of total exports has decreased over the last five years. Domestic consumption of coffee accounts for more than one half of coffee produced. Coffee's share of total exports was around 50 per cent in the years 1989/90 to 1992/93. The volume of coffee exports fell dramatically to 32,249 metric tons in 1991/92. It recovered to slightly more than 67,000 tons in 1992/93. It is indicative of how vulnerable Ethiopia is to changes in world market prices that in 1989/90, the first year that coffee's share of total export value fell to about one-half, the volume of exports was the third highest level in the ten years to 1992/93, at nearly 89,000 metric tons. An indication of how vulnerable Ethiopia is to changes in world market prices. In 1985/86, when there was a boom in world coffee prices, exports of 70,000 metric tons attracted 664.8 million birr, while the highest production level in the ten years to 1992/93, 94,069 metric tons in 1988/89 attracted only 626.6 million birr (National Bank of Ethiopia, 1993:73). Coffee production fell in 1987 to the extent that Ethiopia was unable to meet the quota allocated to it under the International Coffee Agreement. In 1988/89 the International Coffee Organisation quota was 1.326 million bags (of 60 kilograms). In July 1989 all quotas were scrapped. Ethiopia is the third largest exporter of coffee, and is participating in the new producer's export retention scheme.

Unfavourable prices for coffee led to considerable smuggling and to the replacement of coffee by chat and maize production. In October 1989 the Ministry of Tea and Coffee Development raised producer prices by 130 per cent, and reduced coffee taxes. The Coffee Marketing Corporation was stripped of its monopoly role. In early

1990 30,000 hectares of communalised holdings were redistributed to private farmers (European Community, 1992). Producer prices for coffee prior to and since the 1974 revolution have been substantially below world market prices, themselves lower than Addis Ababa prices. A 1979 report found that producer shares of the export price were, for example, 45% in 1974/75, 66% in 1975/76 and 32% in 1976/77, comparable to other coffee-exporting countries (Teshome Mulat, 1979:53). Both Government price controls and the auctioning system for selling on 20 per cent of coffee to private coffee exporters opened up lucrative possibilities for alliances between merchants and government officials.

#### Trading under the Transitional Government

In August 1993 the Transitional Government abolished the grain quota system the government monopolies over some areas of production and trade were lifted. Customs duties and taxes were reformed. The TGE's approach to trade was set out in its "Economic Policy During the Transition Period" in which it states its intention to end the state's monopoly role over foreign trade while continuing to operate in "areas that cut across sectors" and continuing to regulate trade through the issuing of foreign exchange and import-export regulations. Exporters would have to surrender all their foreign exchange earnings to the state in exchange for local currency although some exporters would be allowed to keep back some of their earnings to expand their businesses, the specific amounts being determined on a case-by-case basis. In another important reform, the distribution network has been hived off to private firms, notably the trading arm of the TPLF. The TGE's retention of licenses for commercial activities has left bureaucrats with considerable scope for

discrimination. The government intends to limit the role of the state in the wholesale trade and to expand the role of private capital. This would be achieved by regulating the role of the private sector in the wholesale trade and phasing out state involvement in the retail trade. However it is not the government's intention to abandon the urban population to the mercy of the market. Instead, "In order to stabilize prices the state may engage itself in the wholesale trade of basic goods of mass consumption" and in retail trade the state will "issue appropriate regulations and directives to enforce them. In order to alleviate problems during emergencies, the state may introduce directives and controls"(TGE, 1991:30-31).

### *Devaluation*

Since 1988, when Mengistu announced that the Derg was abandoning the command economy, official government control over domestic and export markets has been relaxed. Further reforms were introduced after 1991 by the Transitional Government. These measures included reform of trade licensing procedures; the rescheduling of taxes and duties, including the end of tax and duty on non-coffee exports; the introduction of fortnightly foreign exchange auctions; and the end of the monopoly of the official trade and distribution corporations (Hansson, 1993:4-12). The most significant reform was devaluation of the birr on October 1, 1992 which made 5 birr equivalent to US\$1. Overvaluation of currency is tied to administrative control of the import regime (as opposed to allowing the market to determine the level of imports) and is therefore one of the "rents" which governments use to bestow benefits on clients (Herbst, 1990:950). Devaluation is however a contentious issue. The TGE and donors maintain that it will stimulate production by increasing purchase prices. However, since the access which producers have to markets is indirect merchants

are unlikely to pass on higher purchase prices to producers. It is also thought that devaluation will encourage parallel markets to flow back into official channels. It is certainly the case that devaluation has increased costs for importers and reduced trading profits for exporters.

#### *Grain markets under the Transitional Government.*

The TGE, despite its stated commitment to deregulating markets, has reformed rather than abolished the institutions for government intervention in trade which were set up by the Derg. In December 1992 the Grain Trade Enterprise (GTE) was established followed by the Agricultural Inputs Supply Enterprise (AIS) in February 1994. The former aims to: stabilise markets and prices; to encourage farmers to increase their output; to protect consumers from unfair grain price increases; to export grain to the world market; and to maintain grain stock and market stabilisation. The AIS Enterprise has inherited the AIS Corporation which was set up 10 years earlier. Like the GTE it aims to stabilise prices and markets. The TGE has been reluctant to decontrol fertiliser prices and regulations on traders: they view the government's role as protecting farmers and consumers from opportunistic entrepreneurs (USAID, 1993:32). However one study (based on a small sample) found that since deregulation farmers sell most of their surplus on to private traders. The Marketing Corporation continues to take all state farm output, although three-quarters of this is passed on directly to other government institutions.

#### *Coffee trade under the Transitional Government*

The Coffee Plantation Development Enterprise (published in *Negarit Gazeta* 53 on November 19, 1993) replaced the corporation of the same name and manages seven coffee farms and Chelekeki and Gojeb farms. Likewise, the Coffee Technology

Development and Engineering Enterprise (Negarit Gazeta 53, November 19, 1993, Regulation 150) replaced the Derg's corporation of the same name and is charged with the construction and repair of machinery and infrastructure necessary to coffee-processing. Two coffee-purchasing enterprises were established in November 1993, the Ethiopian Coffee Export Enterprise and the Coffee Purchase and Sales Enterprise. One of the objectives of the latter is to stabilise domestic coffee marketing (see Negarit Gazeta 53, November 19, 1993, Regulations 127 and 128). These two enterprises replaced the Ethiopian Coffee Marketing Corporation established in 1978. Coffee production and marketing continues to be licensed by the Coffee and Tea Authority. Coffee Trade Licences are necessary for supplying, cleaning, collecting, washing, and exporting coffee as well as for activities related to coffee trade (Proclamation No. 70 August 18, 1993). A Coffee and Tea Authority to replace the Ministry of State Farms, Coffee and Tea Development (est. 1993) was set up by Proclamation in 1995 (Proclamations Nos. 41, 1993 and 116, 1995, respectively). Its general objectives are to increase the quality and quantity of coffee and tea production, to promote the coffee and tea trade and to encourage the industrial processing of coffee and tea. Private traders handled 32,100 metric tons, or 45 per cent of all coffee exports in 1993/94 crop year. This gives the private sector a larger share of the market in relation to the reformed, state-owned Ethiopian Coffee Export Enterprise than initially predicted. Coffee continues to account for two-thirds of total export earnings and about half of the trade is handled by private merchants (EIU, 1997:31). Smuggling is still significant. Total official exports for the crop year 1993/94 were 72,000 tons (1,160 60 kilogram bags) (EIU, 1994:21). Since then exports have steadily increased to 1,800 60 kilogram bags in 1996/97 (EIU,

1997:47).

Receipts from export taxes are almost entirely generated by duties, surtax and cess on coffee (NBE, 1993:83). In 1992 the Transitional Government formally abolished export taxes on the export of all goods except coffee. Given that nine-tenths of export taxes are raised on coffee excluding coffee from the abolition of export duties makes this reform a nearly pointless exercise.

## Industry

Large-scale industrial production was nationalised by the Derg in 1975. Nationalisation mainly affected foreign capital which, in co-operation with the state, had been the prime developer of large-scale industry and manufacturing until 1975. Small-scale manufacturing remained within the domestic private sector.

### *Small-scale manufacturing: cottage and handicraft industries*

A 1981 report found that half of value added in manufacturing originated in small-scale industries and handicrafts (IBRD, 1981: iii). It is unlikely that the structure of this industrial sub-sector changed significantly after the revolution, a government survey undertaken in 1972-73 throws some light on the scope and character of the sector. The survey of cottage and handicraft industries found that most enterprises of this type were one-person operations: 245,077 individuals were working in 209,825 enterprises. Eritrea was excluded from the survey but the findings mirrored the regional distribution of large-scale industry with Sidamo and Shoa together accounting for half of output and value added. The most significant sub groups were weaving and spinning (40% and 23%, respectively). The manufacture of pottery, china and earthenware products and the slaughtering, processing and preparing of

meat were insignificant in terms of the numbers employed ( 9% and 1%, respectively) but significant in terms of value added each having a 7 per cent share of total value added. Weaving represented 42 per cent of value added and tailoring (only 4% of individuals) 15 per cent. Meat slaughtering, preparation and preservation was far more significant than other occupations in terms of the average output per person at 2,768 birr - the next largest being spinning with 546 birr per person (PMGE, 1975:29-33).

### *Foreign capital and industrial investment*

Industrial development dates from the 1950s and with the exception of a few projects sponsored by the Soviet Union, continues to be dominated by agro-processing. In the 1960s manufacturing accounted for 3 per cent of GDP and not more than 5 per cent of exports (Assefa Bequele and Eshetu Chole, 1969:50). Manufacturing in the 1960s was dominated by food, textiles and beverages. Together these sub-sectors accounted for over three-quarters of the total gross value of production in 1965. Industry's share of GDP was 14 per cent in 1965. By 1974 this had increased to 16 per cent and by one percentage point to 17 per cent in 1985, having fallen from a peak of 24 per cent in 1980. Manufacturing is concentrated in Addis Ababa, Nazret, Dire Dawa and Asmara, with Addis Ababa having about 50 per cent of all manufacturing enterprises. In 1965 Ethiopia (including Eritrea) had a total of 248 enterprises in manufacturing. Three centres of manufacturing - the Addis-Ababa to Nazret highway, Asmara and the Dire-Dawa to Harar highway accounted for 227/248 establishments (Assefa Bequele and Eshetu Chole, 1969:50-54)

Liberal investment codes were promulgated in 1950 and 1963, designed to attract foreign capital. The 1963 Investment Decree also provided incentives for the entry

of indigenous investors into industry and manufacturing, but few responded. Until the late 1960s those who did tended to be landed aristocracy or the "new nobility" - individuals with close personal ties with the emperor. Keller has attributed this to the greater incentives provided to foreign capital and the problems with raising credit for domestic investors (Keller, 1988:112). He has also suggested that the exclusion of local entrepreneurs from large-scale manufacturing was a policy of Haile Selassie's government (Keller, 1988:107). While these factors did present obstacles to domestic investment, the lack of interest in industrial investment from domestic capital also reflects the trade orientation of domestic capital. By 1966 Ethiopian \$285 million had been invested by private foreign capital in Ethiopia. The average inflow in the 1960s was Ethiopian \$25 million per annum. In 1967 foreign investments accounted for three-quarters of paid up private capital (Gilkes, 1975:140, citing Eshetu Chole, 1971). By 1970 private investments, mostly foreign, exceeded state investments in the economy. However in the mid-1960s 10/12 of the largest firms, with capital in excess of US\$5 million were primarily government owned (Keller, 1988:105). So that although private foreign capital was more significant than domestic capital, state investments were of great importance in the development of large-scale industry. Nearly two-thirds of private foreign investments were in manufacturing and processing, with the remaining one-third in trading and services (Duri, 1969:58). Three-quarters of the foreign investment in manufacturing and processing were represented by the sugar and textile industries. The former dominated by the Dutch company, HVA; the latter by Indian and Japanese interests. Measured by the combined factors of capital invested, labour employed, and the value of production, the sugar industry was the largest single enterprise in Ethiopia until the revolution

(Duri, 1969:61). HVA was compelled by the Government in 1958 to provide for a national equity interest. A share issue put 20 per cent of the company under the control of Ethiopian nationals and the government. HVA owned, or jointly owned (with an 80 per cent majority interest by HVA) sugar plantations at Wonji, Shoa and Metahara (in the mid Awash valley). By 1965 HVA's sugar factory alone accounted for 70 per cent of all employment in the food industry (Assefa Bequelle and Eshetu Chole, 1969:52).

The textile industry is second only to the sugar industry in terms of capital invested and labour employed. The growth in investment in this sector from the 1960s reflected long-standing foreign interests in the wholesale and distribution trades. The market demand for textiles increased significantly between 1957 and 1966. The textile industry was promoted by Haile Selassie's government as an import-substitution industry to counter the unfavourable balance of trade with Japan and India. The companies which were established as a result of this initiative were mostly Indian and Japanese firms with the Ethiopian government and to a lesser extent private Ethiopian shareholders, holding a minority stake (25 - 45 per cent). In addition to the major companies, other investments in the textile industry included numerous small-scale knitting, bleaching, tinting and dyeing enterprises. Total foreign investment in these enterprises amounted to about E\$25 million.

In short, when foreign assets were nationalised in 1975 the only substantial foreign investments in Ethiopia were HVA, the French 50 per cent share in Franco-Ethiopian Railway and Indian and Japanese interests in the textile industry. There were minor American investments in potash and petroleum exploration, and in the Ethio-American Coffee Company which owned the largest coffee estate in Ethiopia

(10,000 hectares with 70 per cent American shareholders). British investment was largely tied up in the Tendaho Cotton Plantation with one-third of shares being held by a British group of companies. Other minor British investments included meat canning and drug manufacturing.

### Nationalisation by the Derg

The Derg nationalised all foreign enterprises without compensation in 1975, including all bank and insurance companies and most large-scale industries. By 1977 200 industrial and commercial enterprises had been taken into the public sector and by 1982 the state owned 80 per cent of the industrial sector. Nationalisation was restricted to foreign-owned enterprises with the effect that most enterprises remained in private hands. The public sector controlled large-scale industry and accounted for more than 90 per cent of industrial production, 95 per cent of capital invested and 87 per cent of industrial employment, although only 6 per cent of GDP (IBRD, 1981: iii). The overall contribution of industry including handicrafts to GDP is 11 per cent. Industry employs only 3 per cent of the national labour force. In 1982/83 the total workforce in the state-owned industrial sector was 82,057: 36.4 % in textiles; 24.9% in food industries (PMAC, 1984). Both food processing and fuel distribution were subsequently denationalised, a development which Keller attributes to the state's inability to manage these essential industries effectively (1988:246). The most significant effects of nationalisation were to reduce investment in industry, which in turn led to problems with capacity utilisation, and to increase state revenues which reduced the state's dependence on sales taxes. Neither the sectoral nor the geographical distribution of industry was altered by the Derg's policies. Of 163

industrial projects operating in 1983/84, 97 were in Shewa and 44 in Eritrea (PMAC, 1984). Although industrial production and investment fell after nationalisation, the public manufacturing sector was a net contributor to state revenues. A World Bank report in 1981 found that "Overall, the public manufacturing sector is not a burden on the government budget or the banking system. Indeed payments of capital charges and residual surplus, accounting for about 90 per cent of after tax profits, have been made by these enterprises to the government (IBRD, 1981:15). This was echoed in a 1987 report which found that government revenue increases were mainly from transfers from public enterprises and financial agencies (IBRD, 1987:21).

Between 1974 and 1978 there was no investment in industry and industrial activity virtually ceased. Industrial sector growth in the ten years prior to the revolution was 6.4 per cent, this fell to 3.8 per cent in the seven years from 1980. In other words, nationalisation led to a fall in industrial production (Girma Kebede, 1992). Since the revolution several establishments have been founded mostly with support from Eastern Europe and the USSR. A textile factory at Combolcha, Wollo was jointly financed by East Germany, Czechoslovakia and Italy; cement works at Mugher were funded by East Germany ; a tractor assembly at Nazret by the Soviet Union and a weapons factory in Addis Ababa by Czechoslovakia. A hydroelectric scheme at Melka Wakena, Bale was jointly financed by the Soviet Union and Czechoslovakia. Oilseed mills at Bahr Dar and Mojo and a malting plant at Asels, Arsi a distillery in Addis Ababa and breweries in Addis Ababa and Harar were also funded by Soviet and Eastern European finance (Clapham, 1988:149). Manufacturing accounted for 8.5 per cent of GDP in 1985/86. In 1990/91 output fell by 15 per cent, mainly as a result of input-supply problems due to persistent shortages of foreign currency. This

led to a very low rate of capacity utilisation (EC, 1992:10). Public sector manufacturing output fell from nearly 500 million birr in the first quarter of 1987/88 to less than 200 million birr in 1991/92.

In the private sector, in the year 1979-80, excluding the war-zone, the average capacity utilisation rate was less than 60 per cent. Only three out of over twelve hundred establishments were at full capacity, mainly because of a shortage of raw materials. Capacity utilisation was also adversely affected by marketing and financing problems, and by a shortage of power. Much of the machinery was obsolete and of a low technological standard. Problems with capacity utilisation increased as investment fell. Capacity utilisation was also affected by the deteriorating security situation from the late 1980s and by falling reserves of hard currency. Research and Development was limited to the Ethiopian Sugar Corporation, the National Fibre Works and the National Chemical Corporation (PMAC, 1984).

#### Privatisation by the Transitional Government

The major impact of the transition period on industry was the loss of one-third of Ethiopia's industry with the secession of Eritrea. Denationalisation of industry has not proceeded with any urgency, and indeed the TGE's Investment Decree allows for the nationalisation of assets and enterprises providing a court order is secured and adequate compensation is paid (Chapter 2, section 14). Reform of public enterprises announced in August and November 1992 has been limited to the restructuring of the nine corporations which dominated industrial production and operated under the auspices of the Ministry of Industry into 97 publicly-owned enterprises. Capacity

utilisation has improved since the Civil War ended and with increases in the supply of foreign currency and imports. Capacity utilisation was 82.2% in 1987/88 and 40.9% in 1991/92 (TGE, MOPED, 1995) Capacity utilisation has risen from 10 -30 per cent in 1991 to 70/80 per cent at 1994 (EC, 1995:20).

## Conclusion

In this chapter I have shown that international or long-distance trade and domestic trade in Ethiopia are controlled by different agents. Control of long-distance trade and the revenues derived from it has historically been the mainstay of political power in Ethiopia and successive regimes have preserved and expanded state structures through control of these revenues. Long-distance trade has been organised through the market by merchants and through coercive measures (including war) by the state. From their engagement with one another both merchants and rulers have gained considerable benefits. Until 1974 those merchants who were engaged in the import-export trade were foreigners or expatriates. In 1975 the government sought to expand the state's share of external trade by pushing foreign capital out of the market. For the first time domestic capital entered the import-export market. In the domestic sphere trading was primarily geared to linking rural producers to one another and to urban populations. This trade has historically been the preserve of Ethiopian capital. The goods which enter the international market are themselves domestically produced. The state's interest in trade has been limited to those aspects which enter international trade (primarily coffee) and to procuring sufficient food supplies for the urban population and the army. Both the interventions of the Derg and those of the Transitional Government display this characteristic concern with meeting urban food

needs and controlling international trade. The external trade regime (export taxes, overvaluation, licenses for import-export traders and so on) is designed to maximise government control of revenues from long-distance trade and more generally perhaps to establish the government's rights over this trade. It has had the probably unintended effect of creating "rents" which maximise the profits of a small group of import-export traders and other traders who "sell on" licenses or create parallel markets (e.g. in hard currency). In the domestic sphere government interventions also create rents and make participation in parallel markets very attractive for traders and farmers. More generally the domestic trading regime forces peasants to enter the market. Procurement quotas, other restrictions on trade, low official purchase prices and overvaluation of the birr have disguised the extent to which merchants profited under the Derg because these policies are viewed as a brake on the development of markets. The view that peasants have withdrawn from the market because of unfair terms of trade is incompatible with the logic of peasant production. Peasants organise production mainly around their consumption needs, and not for exchange. They enter the market in order to satisfy discrete needs, such as to pay tax. Therefore outside control over trade is necessary to ensure that at least some part of peasant production enters the market. This argument is borne out by the failure of the recent Structural Adjustment Programme in Ethiopia to increase market activity (*Walter North, USAID*). It also calls into question Bates' (1981) view that discrimination against the agricultural sector through price controls has led to falling levels of food production and therefore lower levels of state revenue. While it is clear that political involvement in the market is a strategy which is employed to ensure that urban groups have access to agricultural goods it is less certain that lower rates of rural

productivity are indicative of peasant withdrawal from the market.

After 1974 foreign capital was excluded from both trade and industry. Far from being evidence of the Derg's intention to force through a rapid phase of industrialisation (following the Soviet model) industrial development stagnated under the Derg. I am suggesting that the impact which the Derg regime had on industrialisation was not accidental, for whilst nationalised industry is useful for the increased contribution which it may make to state revenues, industrial transformations represent a threat to merchant capital. Likewise, attempts to regulate and control small scale production can be seen as blocking the transformation of domestic petty-commodity producers into a class of genuine entrepreneurs . It should be clear that the coincidence of interests between merchants and the state represents neither a conspiracy nor a purposive agenda. Rather this was an alliance which was made possible by the underlying structures of the social formation in which both merchants and the state had separate but converging interests in maintaining the dominance of merchant capital. In the next chapter I explore the implications of the material base of state structures for state action in the international sphere. I argue that the dominance of merchants and the entrenchment of peasants in their mode of production prevented the accumulation of sufficient capital to sustain state structures, forcing successive regimes to turn to external sources.

## Chapter Four

### THE ETHIOPIAN STATE IN THE INTERNATIONAL SYSTEM

In chapters two and three of this thesis I have shown how the relationship between classes and the state has shaped state action in the domestic sphere. In particular I have argued that regime action under the Derg furthered the interests of merchants and expanded the state's share of the import-export trade at the expense of foreign capital. It did so because of the congruity of interest between merchants and the regime which arose out of the character of production and, in particular, the absence of domestic industrial capital. I have shown that the EPRDF whilst maintaining the state's expanded share of external trade has extended reforms introduced by the Derg from 1990. These reforms are apparently designed to promote the reentry of foreign capital as part of the EPRDF's development strategy. In this Chapter I relate these developments to the foreign policy goals of the Derg and the EPRDF. My central contention is that the failure of domestic capital accumulation has rendered the state dependent on its control of external trade and manipulation of international alliances. Control of trade has not been sufficient to guarantee regime survival. International alliances have played a greater role in giving central government the edge over other competitors for political power. Conversely, the withdrawal of external support has fatally weakened incumbent regimes.

I begin by setting out the history of Ethiopia's alliances with America and the Soviet Union. I argue that the critical dimension of these alliances for the Haile Selassie regime and the Derg was the part they played in enabling these successive Ethiopian governments to defend Ethiopia's territorial integrity against both internal opposition and external threats. The importance of the American alliance for the EPRDF has

been in the construction of its political legitimacy and the access it has allowed to external grants and loans. I then turn to the question of Ethiopia's position among the Horn states. I argue that whereas the Derg's policy in the region was essentially protective, entering into agreements with neighbouring states in order to isolate Somalia and Eritrea diplomatically and politically, the TGE's policy is expansive: promoting Ethiopia as a regional power holder. I then turn to the issues of foreign trade and investment and external grants and loans. I note that changes in the international system forced the Derg, in a policy which has been continued by the TGE, to abandon its defence of domestic capital and encourage foreign investment. However the restrictions imposed on foreign investors by both the Derg and the TGE are suggestive of the ambiguous nature of these reforms. The dependence of both regimes on external financing in grants and loans underlines the failure of domestic capital accumulation which has had the effect of compromising domestic sovereignty. Finally I discuss the impact which the Cold War has had on marginal states within the international system and specifically on Ethiopia. I argue that bipolarity created a space within which marginal states could seek alliances without compromising domestic sovereignty and that the end of the Cold War has closed that space leaving marginal states vulnerable to incursions on domestic sovereignty by international bodies. However, I suggest that the Transitional Government's positioning of itself as crucial to regional stability has mitigated the impact of the collapse of bipolarity. I conclude that the reorientation of Ethiopia in the international system threatens the relationship between domestic merchant capital and the state.

Bilateral relations with the European powers since 1855

*Ethiopia's entry into the international system of states*

Ethiopian contact with Europeans and European powers goes back to at least the sixteenth century when the Portuguese supported the Ethiopian state against Ahmad Gran. However from 1855, when Tewodros took the throne, contact between Ethiopia and Europe underwent a qualitative shift. It is in this period, which coincides with the extension of European power in Africa, that Ethiopia entered the international system of states. In a stance which came to be characteristic of Ethiopian rulers, Tewodros sought an active alliance with European powers, particularly the British, in order to contain other external threats and to develop Ethiopia's infrastructure.

In his history of modern Ethiopia Bahru Zewde argues that "The quest for European assistance could be regarded as the pivot of Tewodros's policy" (Bahru Zewde, 1991:36) Tewodros, ruler of Ethiopia from 1855 to 1868, continually sought an alliance with the British, a military alliance to defend Ethiopia from Egyptian expansionism and technical support to develop Ethiopia's infrastructure. In neither of these aims did he succeed. The climax of Tewodros' s unsuccessful bid for an alliance with the British came in 1868 when Tewodros arrested the British ambassador for meeting with the Sudanese. At this time Tewodros was seeking British assistance against Sudan. In response to the arrests the British raised a force of 32,000 under Napier. With the active help of regional powers within Ethiopia, notably Kassa of Tigre, the British force crossed Ethiopia rapidly and the ensuing Battle of Aroge was a massacre. Tewodros committed suicide on April 13, 1868 (Negussay Ayele, 1977:47). Negussay suggests that the British had intended to use

the expedition as an opening shot in a campaign to colonise Ethiopia. Bahru disagrees, citing the view put forward by Lord Stanley (later Earl of Derby), the British Foreign Secretary that the British government "...do not consider it incumbent on them to set up or to support any form of government or any particular Ruler under which it shall be carried out, in a country in which they have really no British interests to promote" (Bahru Zewde, 1991:41; Rubenson, 1976:275). Bahru also notes that the Napier Expedition preceded the European colonisation of the continent by two decades. Certainly in this period Egyptian expansionism presented the greater threat to Ethiopian integrity.

However from about 1890 the extension of European control into Africa provoked a series of countermoves by the Ethiopian state, then under the control of Menelik. Britain's Egyptian policy aimed to close the Nile Valley to other European powers, in particular to counter France, Britain's most serious rival in the Nile Valley. British support for Italy's colonisation of the Horn derived from a two-pronged policy of containing the stronger European power, France, while also containing Menelik's expansionist drive in Ethiopia. This policy was formalised in the Anglo-Italian Protocol, signed on April 15 1891. Menelik also entered into a series of treaties with Italy. These treaties preceded Menelik's ascension to the throne. His intention was to undermine Yohannes' sovereignty by supporting Italy's entry into the Horn along the coastline. The Treaty of Wuchali (1889) regulated the position between Ethiopia and Italy after Yohannes' defeat. Whereas for Yohannes access to the sea had been pivotal to his foreign policy, Menelik's power base, derived from his control of Shoa, lay to the south. Italy's interpretation of Article XVII of the Treaty of Wuchali as giving Italy a protectorate over Ethiopia, was repudiated by Menelik. Italy's refusal

to negotiate led to an Italian invasion and the Battle of Adowa. Despite the Ethiopian victory at Adowa, Menelik conceded the coastline to Italy for reasons which have remained both obscure and contentious (Dombrowski, 1986:57). In any event, after Adowa Menelik turned his attention to fixing Ethiopia's boundaries by international treaty. On 10 April 1891 Menelik sent a circular letter to the European powers defining what he considered the borders of Ethiopia to be"(Marcus, 1963:82). Sir Rennell Rodd came to Ethiopia in 1897 to settle various matters between the two governments. He commented that Menelik, "... laid down what he considered to be the actual boundaries of the Abyssinian Empire, and further defined what may, by analogy, be described as a sphere of influence including all the territory that had at any time in the past been tributary to Abyssinia, and which it was his avowed intention to bring once more within the area of his dominions"(Marcus, 1963:83). Given the weakness of Britain's position in Sudan at the time, Rodd asked Menelik to leave the western border situation to a future time and that in the meanwhile Ethiopia would not cede any of its territory to any other power (Marcus, 1963:8). The negotiations were eventually concluded in 1902 and two treaties were signed at Addis Ababa settling the borders of Sudan, Ethiopia and Eritrea (Marcus, 1963:94). Menelik also gave a concession to France to build the Addis Ababa-Djibouti railway, thereby diversifying both Ethiopia's access to external trade routes and widening the number of European powers with an interest in Ethiopia. This strategy paid off in 1906 when Britain, France and Italy signed a tripartite treaty. Their intention had been to divide Ethiopia into spheres of influence, "Yet, they were unable to settle the question of who should get Ethiopia and, thus, in Article I, reaffirmed the status quo, i.e. Ethiopia's independence. Menelik's diplomacy of diversifying Ethiopia's access

to the sea had paid out" (Dombrowski, 1986:65; Negussay Ayele, 1977:47).

Haile-Selassie continued this policy of diversifying Ethiopia's foreign policy interests. In 1923 Ethiopia joined the League of Nations. However agreements between the European powers undermined any support or protection which Ethiopia may have been able to derive from its League membership. Nor, of course, did Ethiopia's 1928 Twenty Year Treaty of Friendship with Italy protect the country from Italy's subsequent aggression. At the end of 1934 an Anglo-Ethiopian Boundary Commission found that an Italian garrison at Wal-Wal was in Ethiopian territory. Italy would not let the commission proceed. Fighting began on December 5, 1934. In January 1935, after the Italians refused to negotiate, Haile-Selassie lodged a formal complaint with the League of Nations. The European powers did not support Ethiopia. In December 1935 the British Foreign Secretary, Hoare and the French Premier, Laval presented a mediation proposal to Ethiopia and Italy. It suggested changing the Danakil and Ogaden regions to Italy's advantage, in return for which Ethiopia was to get the Port of Assab and a small corridor along the border with French Somaliland. Ethiopia below 8 degrees north was to be set aside for the unimpeded economic expansion of Italy and the settlement of Italians. Ethiopia rejected this plan (Dombrowski, 1986:89-90; Negussay Ayele 1977). The League members voted for sanctions against Italy and Ethiopia (Negussay Ayele, 1977:48). The USSR and the USA exceptionally among League members did not support Italy's claim to Ethiopia. Italy had mobilised for war in Italian Somaliland and Eritrea and had exploited regional differences within Ethiopia. They invaded Ethiopia from Eritrea and Italian Somaliland on October 3, 1935. Haile-Selassie left Addis Ababa in May 1936 and a few days later Italy occupied the capital (Greenfield,

1965:191-197).

*European - Ethiopian relations post - 1941*

British forces entered Ethiopia against Italy in 1941, following the Italian entry into the war in Europe. Haile Selassie reentered Ethiopia from Sudan on January 20, 1941 (Greenfield, 1965:257). His return by no means assured his control of the territory and of state power - neither at the centre nor in the regions. There were revolts in the south-west and in eastern Tigre. British and Ethiopian troops put down a rebellion in Tigre in 1941. Eritrea and northern Tigre were under British administration, based at Asmara. Following fraught negotiations between the two countries an Anglo-Ethiopian agreement was reached in January 1942. Sir Philip Mitchell, Chief Political Officer had proposed a five point agreement which "...aimed to endow Britain with such sweeping control that Ethiopian independence would have been a complete farce" (Greenfield, 1965:273). The agreement pledged the British to pay Ethiopia £6 million in 1942 and a further £1 million in 1943. A further £1 million was made available for non-recurrent expenditure, to be allocated by the British Diplomatic Representative (Greenfield, 1965:275). In 1944 Ethiopia terminated the 1942 agreement and signed a new agreement which put Ogaden under British administration, with Ethiopian sovereignty. A 1954 agreement provided for the handover of Ogaden in 1955. Ethiopia and Italy could not reach an agreement on the Ethiopian-Italian Somaliland border. The legacy of this agreement was inherited by the Somali Republic.

## Ethiopia's post-war relations with America

The Ethiopian alliance with America began in the post-war period. Whilst the USA had limited strategic interests in Africa derived from its geo-political position, it offered no possibilities for economic exploitation (Spencer, 1977:42, Bell, 1973). Ethiopia presented an opportunity to establish a communications centre, link air routes towards India and the Far East and establish an American presence on the continent (Ottaway, 1984:168) as a counterweight to the European presence and flagging America's post-war role as a hegemonic power. An alliance with Ethiopia secured the support of an important regional power for American foreign policy. On the Ethiopian side American interests coincided with Haile Selassie's determination to frustrate European, especially British, ambitions in the Horn by securing American support for Ethiopia's claim to Eritrea and establishing Ethiopia as a regional power holder. American support for the UN resolution to federate Eritrea with Ethiopia and US indifference to Ethiopia's annexation of Eritrea in 1962, was a response to Ethiopia's support in the Korean War (Halliday and Molyneux, 1981:214). The alliance did not constrain domestic policy, e.g. American advice on land rights was consistently ignored (Halliday and Molyneux, 1981:218) although America did have some influence in cultural and educational fields (Negussay Ayele, 1977:59) and Cohen (1985) has argued that American policy had an indirect influence on land policy but that it was not prepared to proffer the support which Ethiopia needed to develop the capacity to implement land reform.

The key to the alliance was the USA's establishment of a communications centre, Kagnaw, at Asmara, Eritrea. Haile Selassie acquired considerable "buying power" over Kagnaw (Lefebvre, 1987). The agreement on Kagnaw provided Ethiopia with

US\$ 5 million in Military Assistance Advisory Group (MAAG) training and aid, and amounted to half of the total of American military aid to Africa. In addition, a Treaty of Amity and Economic Relations was concluded in 1951 and a Mutual Defence Assistance Agreement in 1953. Between 1953 and 1975 America provided Ethiopia with US\$ 160 million in military assistance and trained over 3,000 Ethiopian military personnel in the USA. Direct economic aid, excluding US support for international aid agreements, lagged far behind military aid and amounted, at US\$84.5 million between 1945-1961, to less than one-third of US aid to, for example, Morocco.

The importance of Kagnew diminished with new advances in communication technology and the opening of an American communications station on Diego Garcia (Lynch, 1982:106). The USA informed Ethiopia in October 1973 that Kagnew would close on July 1 1974, with a possible one- year extension (it finally closed in 1977). The decision to run-down Kagnew "signified the end of American protection and military aid"(Lemma, 1988:196). Haile Selassie visited the USA in 1973 to secure military aid of a sufficient sum to match Somalia's capacity, US\$200 million of equipment was agreed, but the trip was seen to be a failure for the Emperor (Merahhehiwot Gabremariam, 1995:10). Other factors contributed to the diminishing of American interest in Ethiopia. In particular, Sadat's realignment of Egypt from the Soviet Union to the USA; Détente; and Vietnam. Egypt's realignment removed the importance of Ethiopia as a regional Cold War ally, while Détente brought into question the relevance of anti-Soviet alliances. Vietnam dented American confidence in its ability to pursue interventionist foreign policy goals, encouraging an isolationist perspective in US foreign policy. Negussay Ayele writing in 1977, before the Derg regime had consolidated power expressed concern that Ethiopia could no

longer rely on the USA for its security needs because of the phasing out of Kagnev and the impact of Detente on American foreign policy.

Nevertheless, the overthrow of Haile Selassie was a blow to the American security strategy for the Persian Gulf and the Middle East. Coinciding with the Iranian revolution and the Soviet intervention in Afghanistan, which increased the significance of superpower alliances, and the fall of Angola to a pro-Soviet faction (Korn, 1986:21) it stimulated a re-evaluation of American policy which led to significant increases in military aid after the revolution, despite the Derg's increasingly anti-American stance. Indeed, "Ethiopia gained considerable geo-political and strategic importance for the West simply by going over to the Soviet side" (Korn, 1986:73; Bell, 1973). The US continued to support the Derg until 1977. America's support for the Derg derived from concern that a weakened Ethiopia could not maintain its hold on Eritrea and about the impact which this might have on regional politics. In particular, that if Eritrea aligned with Arab states this would lead to Arab control of Bab al-Mandeb which could cause problems for Israel. Yet, If Eritrea broke away with US support this could compromise America's relations with other African states who supported the OAU's commitment to maintaining the status quo for the borders of post-colonial African states. The US also supported a strong Ethiopia as a regional counterweight to Soviet - backed Somalia (Halliday and Molyneux, 1981:214) whereas a weak and dependent Eritrea could provide an opening for an extension of Soviet influence in the Horn.

The confusion in American foreign policy towards Ethiopia in this period is perhaps reflected in the Ford Administration's decision to suspend the supply of ammunition over concerns about human rights abuses and military offensives in Eritrea (Henze,

1989b:377). The USA continued to be Ethiopia's principal source of military aid until Spring 1977 when the Derg broke relations following the USA's decision to cut military assistance, citing human rights violations (Lemma, 1988:237). Between 1974-1977, the USA supplied Ethiopia with, in financial terms, half as much again as everything supplied until 1974 (Korn, 1986:21; Henze, 1989b:373). In 1976 Kissinger approved the supply of 2 squadrons of F-5E fighter bombers and agreed to consider a request for US\$100 million in additional military supplies (Korn, 1986:21; Henze, 1989b:373). Henze contends that "it was these planes that enabled the Ethiopian Air Force to blunt the initial Somali offensive in the Summer of 1977"(Henze, 1989b:373). The American Development Assistance Programme concluded in July 1978 and worth US\$20 million per annum was not formally terminated until July 1979 after Ethiopia failed to negotiate on compensation of US\$30 million for American nationalised businesses. Humanitarian aid continued throughout the Derg's rule, with the USA supplying US\$5-6 million per annum in the years 1979-82, increasing to US\$11 million in 1983 and US\$ 24 million in 1984. The USA unsuccessfully attempted to open negotiations with Ethiopia in 1983 and 1985 (Merahhehiwot Gabremariam, 1995:15).

The significance of American military support to the Ethiopian government was demonstrated by the failure of Haile Selassie's regime to weather its withdrawal. American diplomatic support in the post-war period had brought both Eritrea and the Ogaden back under Ethiopian influence and its subsequent military support ensured that they stayed there. It gave central government the resources to both maintain Ethiopia's territorial integrity and to pose within the Horn as a regional power holder. The Soviet-financed military build-up in Somalia, coinciding with a lessening of

America's interest in Ethiopia, threatened Ethiopia's territorial integrity and triggered a search for military support sufficient to match Somalia's capacity. Haile Selassie's failure to secure that degree of support from the USA weakened his claim to hold central state power and undermined the legitimacy of his regime. Despite Haile Selassie's attempts to represent Ethiopia as a non-aligned country, it could not access an alliance with the Soviet Union without radically altering the structure of government. It was this radical rewriting of form (rather than content) that enabled the Derg to realign Ethiopia to the Soviet Union.

#### Ethiopia's post-war relations with the Soviet Union

The Soviet Union's opportunities for expanding their influence in north east Africa after World War II centred on Ethiopia, then the only independent state in the region. The USSR established diplomatic relations with Ethiopia in 1942, and opened their first African aid project, a hospital in Addis Ababa, in 1946 (Henze, 1989b:361). Haile Selassie visited the USSR in 1959 and concluded a loan agreement worth US\$100 million. Notwithstanding which until the Derg's realignment of Ethiopia in 1977 the only substantial Soviet presence in the Horn was in Somalia. The USSR began providing Somalia with military support in 1963 and dramatically increased aid after the 1969 revolution and signed a Twenty Year Treaty of Friendship and Co-operation in 1974. Between 1974 - 1977 the USSR supplied Somalia with US\$300 million in arms, and provided technical advice in return for air and naval facilities at Mogadishu and Berbera. The extent of the Soviet presence in Somalia from 1963 and the extension of Soviet interests in the Middle East after the 1967 Arab-Israeli War made Ethiopia a less important ally. Ethiopia's traditional alliance with Israel,

putting it on the wrong side of the Arab-Israeli divide, would have further diminished Soviet interest. The formal switch in alliances in 1977 when Somalia broke with the USSR and Ethiopia with the USA was preceded by a gradual deepening of Soviet-Ethiopian relations. In Spring 1975, the Derg sent a delegation to Moscow for military assistance. In December 1976 Ethiopia signed a US\$100 million deal with the Soviet Union (Korn, 1986:18-21). The Derg received its first shipment of Soviet arms in March 1977. In November 1977 agreements were signed on economic, scientific and cultural co-operation and an arms supply pledge of US\$350-450 million and a Twenty Year Treaty of Friendship and Co-operation was concluded (Korn, 1986:29-31,33-34). The USSR was not provided with military installations in Ethiopia and maintained its naval bases at Berbera. However, with the USSR's November 1977 announcement that it was ending arms supplies to Somalia it lost its alliance with Somalia, despite attempts to create a Socialist Bloc of Yemen, Ethiopia and Somalia. The Derg's alignment with the USSR secured it sufficient military support to repel the Somali advance and halt the expansion of Somalia's armed forces, contain the Civil War in Eritrea and Tigray, and to increase its security apparatus in the face of the imminent French withdrawal from Djibouti in mid-1977 (Lemma, 1988:237). Lemma has argued that it was the "crucial need for arms supplies, rather than the adoption of Marxist ideology or economic motives that was paramount in influencing the foreign policy decision to shift to the Soviet Bloc" (Lemma, 1988:237).

Other changes at an international level precipitated the Soviet Union's decision to ally with Ethiopia. Soviet awareness of an increase in Saudi military power at a time when the USSR's own military capacity was increasing, together with the mood of

uncertainty in the 1970s in America, gave Moscow new incentives for stepping up its involvement in the Horn. The Soviet's role in Somalia was not accompanied by a proportional influence. The USSR had significantly increased its military aid to Somalia following the 1974 Portuguese revolution, and the impact of these on Mozambique and Angola. Somalia left the alliance in November 1977, Sudan had left the previous May. Moscow's loss of Egypt and Sudan to Saudi Arabia increased the attraction of Ethiopia for the Soviet Union (Desfosses, 1979).

As with the American alliance, economic aid was minimal, amounting to the supply of oil at 10 per cent below world market prices, expanding the oil refinery at Assab and building a tractor plant at Nazret (Halliday, 1986; Korn, 1986). The Derg had bilateral trade agreements with CMEA countries which were disrupted by the collapse of the socialist bloc in 1989. In 1990 a Preferential Trading Agreement with the USSR for guaranteed oil supplies expired. An agreement with Cuba to supply leather and haricot beans in return for iron bars was still in place in 1992 (EC, 1992:10,14,69). However Ethiopia's largest trading partner was West Germany with nearly one-quarter of all exports (PDRE, Central Statistical Authority, 1990). The external economic shocks generated by the collapse of the Socialist Bloc were of less importance to regime stability than the impact on the Derg's defence capacity and on its political legitimacy.

In late 1988 the USSR informed Mengistu that it would cease to provide military assistance. There was an abortive coup attempt in May 1989 when Mengistu was in East Germany in search of military aid. The coup was put down but whole military units defected, taking their arms and equipment with them to join the opposition forces (Keller, 1995:131). The withdrawal of Soviet support once again called into

question the central state's ability to defend Ethiopia's territorial integrity against secessionist and sub-nationalist forces. The Derg's pursuit of a military solution to the political problems of Eritrean secessionism and Tigray nationalism was no longer a viable strategy. Territorial integrity and the exclusion of foreign capital were the two guiding principles of the Derg's policy. Once the Derg became incapable of realising these goals the regime collapsed from within. The EPRDF, which had already reinvented itself as a democratic organisation and clearly had the capacity to govern, was now in a position to occupy the space created by the Derg's dissolution and to fend off political competition through its alliance with America.

#### Revisiting America at the end of the Cold War

With the end of the Cold War signalled by the December 22, 1988 Tripartite Agreement on Namibian independence and the withdrawal of Cuban troops in Angola, the USA lost interest in African conflicts (Clough, 1992:11-13). The US has few tangible interests in Africa (Clough, 1992:20). Indeed, "To some extent, in terms of American foreign policy, Africa doesn't count for anything" (*Walter North, USAID*). The American commitment to collective security which prevailed during President Bush's tenure, was not an issue in Africa where, with the exception of South Africa, there were no strong regional powers ready to invade neighbouring states. In December 1990 USAID announced the Democracy Initiative (Clough, 1992:58). America remains a marginal player in Africa with multi-lateral agencies and France together accounting for over 50 per cent of aid to Africa in 1989.

If the end of the Cold War marked the end of Africa's strategic significance, this was tempered in Ethiopia by the sceptre of regional instability. The Horn has been of

strategic significance since the colonial period because of the importance of the Red Sea and the Straits of Bab al-Mandeb (Ottaway, 1984:165) and its proximity to oil-producing countries. It acquired heightened significance during the Cold War as the site of USA-USSR competition. America was concerned to establish a balance in the region. Regional stability and in particular the protection of Red Sea trade continues to be of interest to the US. The USA views the Greater Horn as the back door to the Gulf (*Carston Piggot, British Embassy*) and Ethiopia as the key to the stability of the Horn (Henze, 1989:362). Containing destabilising factors such as war, refugees and radical Islamic movements are concerns of US policy. America is apparently particularly concerned about the destabilising effect of Islam, especially in Sudan (*Arlene Jacquette, USIS*). A concern with regional stability and a recognition that Ethiopia is one of the few countries in the Horn with a stable government has also strengthened the TGE's hand in its negotiations with other donors (*Henio Marios, EEC*). Nevertheless, the loosening of Soviet-Ethiopian relations reduced the geopolitical value of Ethiopia to the USA (Merahhehiwot Gabremariam 995:17). Indeed the entire region no longer has the strategic or geo-political interest which it represented during the Cold War. If America has any foreign policy interests in the Horn then these are related to Egypt and Israel (*Walter North, USAID*). America's intervention in Somalia, from which it simply walked away with no costs in terms of American interests or wider peace issues, clearly illustrates this downgrading of the Horn as a relatively significant force in international politics. (*Walter North, USAID*).

Recognising the need to secure an alliance with the USA as the hegemonic power in the international system, the Derg approached the USA for discussions but was

stonewalled until Herman Cohen (Assistant Secretary of State for African Affairs) visited Addis Ababa in 1989. A mark of the Derg's foreign policy reversal was the Derg's support for the US led campaign against Iraq, following Iraq's invasion of Kuwait, in the UN General Assembly and Security Council.

When the EPRDF took power it had already secured an alliance with the USA. America was present at the London Conference in 1991 and led the donor reentry into Ethiopia. The perception that America was in some way responsible for bringing the EPRDF to power undermined the TGE's political legitimacy. However, the alliance with America also protects the EPRDF from competing claims to state power. American support has facilitated the government's dialogue with the IMF and the World Bank and its access to international concessionary finance. The US Aid programme is in four sectors: basic education, health/population, democracy/governance and increasing food production. These are in addition to any emergency humanitarian assistance (*Walter North, USAID*). Ethiopia served as a rear base for US armed forces in Somalia in 1992 - 93 and joint defence exercises were held in early 1994. The Addis Ababa independent press reported unconfirmed rumours that the USA is planning a military base in Ethiopia (EIU, 1994:12).

#### Relations with the European Community since 1973

The EC has had a continuous relationship with Ethiopia since 1973 when it came in as a provider of food aid for the 1973 drought. Ethiopia is the largest recipient of EU support. The Derg negotiated and signed Lome I. Lome I and Lome II were primarily geared to the development of the economic and social infrastructure. It has received gradually increasing amounts of Lome funding: from ECU 120 million

(Lome I) to ECU 265 million (Lome IV), excluding EU support for areas other than the National Indicative Programme and support from the European Investment Bank. Lome III (1986-90) supported Shoa's PADEP, the Coffee Improvement Programme, the Lake Fisheries Development Project, Integrated Training Programme and Sectoral Import Programmes (including for essential imports for the private sector). Less than half of Lome III funds (ECU 92.41 million) had been disbursed by May 1991 when operations were suspended due to the change in government (EC, 1992:46,84). The EU provided one-fifth of the overall costs of the post-Derg Emergency Recovery and Rehabilitation Programme. Nearly one-half (43%) of Lome finance from 1975 through to 1990 was for Food Aid and Emergency Aid. The continuation of the EU's relationship with the Derg in a period when the United States and virtually all European member states had cut political ties (although humanitarian aid did continue) has been defended by the EC on two counts: firstly, that the relationship gave the EC some leverage with the Derg and secondly, that the Lome Agreements were contractually binding on the EC and were not conditional on the recipient state meeting political criteria ( *Henio Marios, EEC*). This is no longer the case, Lome agreements now require the recipient state to agree to certain political practices, particularly on democracy, governance and human rights issues. Lome IV, Article 5, states that co-operation between the EU and ACP states is to be directed towards the promotion of the rights of the individual. As a result at the end of 1993, in seven countries (Haiti, Liberia, Somalia, Zaire, Sudan, Togo, and Equatorial Guinea) the Commission Delegations were closed and up to ECU 150-200 million per annum, per country was not paid out. Ethiopia also faced delays in negotiating and receiving Lome funds. In this case because of the rupture to the

political process caused by the end of the Civil War and the ascension of the TGE to power. Speculatively, if the Derg had remained in power the EU may have withdrawn. Lome IV programming has been renegotiated twice since 1991 (EC, 1992:10). Lome IV was finally negotiated with the TGE and signed on March 18, 1992 (the agreement concluded with the Derg on February 23 was superseded). It lays particular emphasis on the promotion of the private sector in agriculture, industry and services, and support for Ethiopia's Structural Adjustment Programme. Lome IV amounts to ECU 265 million of which 225 million is a grant (with 20 million set aside for Eritrea) and 40 million is risk capital administered by the European Investment Bank (Courier 145:38). ECU 75 million is available for Structural Adjustment Support.

*Table 1: Total EC assistance to Ethiopia (1975-1993) in ECU millions.*

	Lome I 1975/80	Lome II 1981/85	Lome III 1986/90	Lome IV 1991/93	Total
National Indicative Programme	120.0	141.0	210.0	225.0	696.0
E.I.B	-	12.5	31.0	40.0	83.5
S.A.Support	-	-	-	75.0	75.0
STABEX	14.4	11.5	98.6	150.0	274.5
Food Aid	34.4	141.3	250.7	196.0	622.4
Emergency Aid	7.0	43.5	49.0	16.0	115.5
Rehab. Prog.	-	-	36.2	7.0	43.2
NGO Co-financing	0.2	1.7	11.3	15.0	28.2
TOTAL	176.0	351.5	686.8	724.0	1938.3

## Ethiopia as a regional power holder

Under the Derg regional policy was driven by attempts to isolate Somalia and Eritrea diplomatically and politically. Treaties of Friendship and Co-operation were agreed with Kenya in January 1979, and South Yemen in December 1979 (Lemma, 1988: 262ff). Agreements relating to military co-operation, security and non-interference were concluded with Djibouti, South Yemen and North Yemen. Sudan realigned with Ethiopia in 1979 and concluded an agreement on relations between the two countries and counter-insurgency measures but refused to close the border or prevent EPLF supplies moving from Port Sudan into Eritrea (Africa Confidential, 1980:1-2). A Tripartite Pact with Libya and South Yemen in August 1981 once again damaged Ethiopian-Sudanese relations. Ethiopia's close ties to Israel isolated it in the Arab world. Egypt, for example, supported Somalia diplomatically and militarily in the 1977 conflict over the Ogaden and gave political support to Eritrean secessionists (*Jahmy, Egyptian Embassy*).

The TGE's seizure of power was achieved in part by its alliance with the EPLF during the Civil War. Ending the conflict with Eritrea was crucial to the TPLF's ability to take and hold state power in as much as it removed the only effective opposition (i.e. the EPLF). It also cut the TGE off from a crucial site of political legitimacy in Ethiopian nationalism which it has attempted, not entirely successfully to reformulate as Ethiopian nationalisms (see chapter six). Nonetheless, with the resolution of the problem of Eritrean separatism, Ethiopia is laying claim to a role as a regional power-holder with the vision to resolve the domestic conflicts of other neighbouring states and reshape the Horn into a political and economic union through the restructuring of IGADD and the regeneration of the PTA, which the TGE

was elected President of in 1993. To this end, Ethiopia had a peace-keeping contingent in Rwanda and played a role in attempting, albeit unsuccessfully, to resolve the conflict in Somalia. Agreements on Friendship and Co-operation were signed with Djibouti, Sudan, and Kenya shortly after the TGE came to power and with Eritrea shortly after independence. Nonetheless, Ethiopia's border areas remain a problem. Somalia continues to lay claim to the Ogaden. The Civil war in Sudan, and the rupture of Sudan's relations with Eritrea and Uganda are troubling for Ethiopia and viewed with concern by both Britain and the USA (*Arlene Jacquette, USIS; Carston Piggot, British Embassy*). While the other Horn states may not be taking these pretensions seriously, they coincide neatly with Clinton's June 1994 "Initiative on the Horn of Africa" which focuses on food security and crisis prevention via a reformed IGADD and views Ethiopia in the context of the "Greater Horn" which includes Rwanda, Burundi, Kenya and Uganda (*Merahhehiwot Gabremariam, 1995; Arlene Jacquette, USIS*). IGADD was set up to mitigate the effects of drought in the member countries (Ethiopia, Kenya, Somalia, Sudan, Uganda and Eritrea). Its mandate has now been extended to development.

A key issue in regional relations is the allocation of the Nile waters. The 1959 Nile Waters Agreement negotiated between Egypt and Sudan allocates the yield of the Nile between these two countries. Although 85 per cent of the water arriving at the Aswan High Dam originates in Ethiopia, Ethiopia does not have any allocated yield and was not party to the negotiations. In a Joint Peace and Friendship Declaration in 1991 (Khartoum, December 23) Ethiopia and Sudan agreed to seek to establish a Nile Basin organisation and to consider the "equitable entitlement" to the Nile waters of the riparian states (*Whittington et al, 1994:11-17*). Sudan seems to have accepted

the principle that Ethiopia should be a party to any agreement on the Nile Waters. However, they are unlikely to abrogate the 1959 agreement given the probable response from Egypt. A technical committee with Egypt and Sudan on water conservation has been set up (*Sahle Selassie Lemma, Ministry of Foreign Affairs*). The Transitional Government considers the Blue Nile "to be the central issue in Ethio-Egyptian relations"(Whittington et al, 1994:8). A Framework for General Co-operation Between Ethiopia and Egypt was signed in Cairo on July 1 1993 and is essentially concerned with this issue. The TGE's agricultural development agenda cannot be realised without a share of the Nile waters.

#### *Regional trading bloc*

The TGE have linked their restructuring of Ethiopia to a restructuring of the relationship between the Horn states and establishing an Economic Community of the Horn (*Neggash Keberet, Ministry of Foreign Affairs*) or at least a North East federation between Ethiopia, Eritrea, Somalia and Djibouti (*Dawit Yohannes, TGE*). Ethiopia and Eritrea have already entered into a number of agreements and have a common currency which necessitates some shared economic and fiscal policy and which may be a precursor to establishing a more formal union (*Dawit Yohannes, TGE*). There is no longer an effective border between Region 5 and Somalia and trade links between the two countries are substantial (*Peter Semkin, UNDP*). Uganda has expressed an interest in an Economic Community with Ethiopia and Eritrea. However without Somalia, Sudan, Djibouti and Kenya this is unlikely to be a viable project, important though it may be to the development process. Relations between these countries have not been any smoother since the transition than they were before (*Fies Omar, IBRD*). In any event, establishing an economic federation requires more

than political good will. The infrastructure to support inter-regional trading also needs to be put in place (*Stephen Cummings, USAID*).

#### International trade and foreign investment

Throughout the Derg's rule, despite its political alliance with the Soviet Bloc, Western Europe and the USA continued to be Ethiopia's largest trading partners. Trade with the USA in 1970 accounted for more than 40 per cent of Ethiopia's international trade. In 1970-71 US-Ethiopian trade at US\$89 million placed Ethiopia as the USA's twelfth trading partner (Negussay Ayele, 1977:58). Trade with the USA and Western Europe continued to be significant contributors to the Ethiopian economy during the Derg's rule, despite the policy alignment with the USSR. Under the Derg the state's share of the import-export trade increased at the expense of foreign capital (see chapter three). Three-quarters of official imports and two-thirds of official coffee exports were handled by the public sector. Several public corporations and industries were directly involved in foreign trade, dealing with coffee, oilseeds, sugar, salt and processed hides and skins (IBRD, 1981:18).

In 1990 the Derg introduced a series of regulations on foreign investment with the intention of attracting foreign capital for the development of industry, agriculture, infrastructure and import-export trade. The intent of these regulations was to restore the pre-revolutionary role of foreign industrial capital in the economy. These reforms which echo the previous regime's attempts to attract foreign capital, and which have been continued and extended by the TGE, have brought into question the viability of the symbiotic relationship between domestic merchant capital and the state. In the previous chapter I discussed the importance of this relationship for state stability and

regime legitimacy. The timing of the Derg's investment reforms is suggestive of the part which international political alliances played in the ability of the Derg to stave off external demands to make Ethiopia safe for capitalism. However they remained under pressure to satisfy internal demands to sustain the dominance of merchant capital. This ambiguity is reflected in the ambiguity of the reforms themselves which have not created a welcoming investment climate for foreign capital. A comparison of foreign investment regulations under the two regimes reveals the continuity in approaches to investment since 1990. Both regimes are seeking foreign investment for access to foreign technology and training. The investment climate is bureaucratic, complex and uncertain, e.g. businesses nationalised by the Derg have not been compensated by the TGE. Despite very low labour costs, the reforms have not succeeded in attracting foreign capital except to mining concessions. There has been very little foreign interest in Ethiopia and conditions for investment remain more attractive elsewhere, including in other African countries.

The TGE issued its first proclamation on investment in May 1992 (Proclamation No. 15 May 25 1992). In its preamble and first chapter it clearly flags the TGE's intention to limit the role of foreign investment to economic reconstruction and rehabilitation. Chapter two reserves for government investment only defence, large-scale production and the supply of electrical energy, post and telecommunications; large-scale air, rail and marine transport services; insurance, banking and large-scale financial institutions; import-export trade "in selected products having crucial roles in the economic life of the country"(Article 4 (f)) - which must necessarily include coffee exports. Areas reserved to Ethiopian private investors are small-scale air, rail and marine transport and small-scale production and supply of electrical energy.

Financial services may be opened to private investors at the discretion of the government. The Government also has the exclusive right to invest, on its own or in joint ventures with private investors, in the following areas: large-scale engineering and metallurgical industries; capital-intensive and technology-intensive investment in large-scale mining and energy production; large-scale pharmaceutical and fertilizer plants; and industries which supply raw materials to chemical industries. Domestic investors have priority in investment. Partnerships between domestic and foreign investors should be in accordance with Investment Board directives which seek to protect the rights and interests of domestic investors. Investment certificates are only issued to investors who fulfil one or more of a number of investment objectives and have a minimum investment capital of US\$500,000 for foreigners or Birr 250,000 for Ethiopians. Investment objectives include: developing a domestic market; providing wider employment opportunities for Ethiopians; strengthening domestic private capital; expanding export volumes; contributing to economic reconstruction; using domestic resources; achieving balanced and integrated development; transferring technical skills to Ethiopians. Investment incentives are offered for investment in agriculture, development, manufacturing, large-scale road and building construction, water works, the development of natural resources, and rural transportation facilities. Such incentives are available to investors who have obtained an investment certificate and who invest US\$500,000 (foreigners) or Birr 250,000 (Ethiopians). The incentives offered include the waiving of import duty, exemptions from income tax, and discretionary exemptions from export duty. Foreign investors must use Ethiopian personnel or, if trained Ethiopian staff are not available, arrange for the necessary training and replacing, within a limited period, of expatriate staff

by Ethiopians (2(13)(9)(b)). Investment applications must be submitted to the Investment Office together with Memorandum and Articles, any proposals for expansion, the list of goods to be imported duty free, the nationality of the investors or shareholders, the size of investment capital, details of training which will be provided to Ethiopians, and any other investment objectives which will be met. If the Investment Office approves the application an Investment Certificate will be issued. The enterprise must then register under the Commercial Code and apply for an operating licence. Operations must begin within six months and progress reports must be filed with the Investment Office.

#### International grants and loans

External assistance under the Derg was about US\$6 - 9 per capita per annum. This compares to an average of US\$20 for low income African countries (IBRD, 1987:6). While the sources on the extent of Ethiopia's debt are generally inconsistent with one another, in the most general terms the increase in Ethiopia's debt has been in keeping with the general pattern in Africa. In sub-Saharan Africa (excluding South Africa) total debt was an average of 19.6% of GDP in 1970 and 69% in 1985. Two-thirds of African countries in 1985 had a higher GDP: total debt ratio than Ethiopia (Bradshaw, 1990:231). Ethiopia's debt in 1984 was in the region of one-quarter of GDP having risen from about 10 per cent in 1974 (Befekalu Degefe, 1992:21; IBRD, 1987:3).

The Derg started negotiations in 1990 with the IBRD. The biggest obstacle to negotiating a lending programme was the extent of the costs of pursuing the war: half of Ethiopia's recurrent budget was going to finance defence. The Bank decided not

to proceed and the IBRD's involvement in Ethiopia did not resume until the EPRDF's ascension to power. The IBRD and the IMF were involved in developing the reform programme which is based on the TGE's New Economic Policy (*Fies Omar, IBRD*). The structure of Ethiopia's debt since the transition has been tied to the Emergency Recovery and Rehabilitation Programme (ERRP). The ERRP has three components: production, social assistance and infrastructure. It is integrated with a three year Structural Adjustment (Support) Programme for Balance of Payments support approved by the IBRD in October 1992. It commits the government to the gradual privatisation of the national economy. Both the government and donors are hostile to any suggestion that the reform programme may have been externally imposed.

The impact of the failure of domestic capital accumulation on state stability

The failure of domestic capital accumulation (see chapters two and three) forces the state to turn to international sources to finance the maintenance and expansion of state structures. The dependence on external grants and loans in turn makes the state vulnerable to covert attacks on domestic sovereignty. This is particularly the case where the dependence on external aid forms a one-way relationship with aid-providers. Aid is not a free good but what it costs the recipient state partly depends on the international context. During the Cold War the cost of first American and after 1977 Soviet support was political allegiance in international arenas. Since the collapse of bipolarity the cost is a relinquishing of domestic sovereignty to a greater or lesser extent depending on what other political goods are available. In Ethiopia the political good which has allowed a lesser surrendering of domestic sovereignty has been regional stability.

However pragmatic alliances may be they force the weaker party to construct a political, economic and ideological approach consistent with that of the more powerful state. Since this framework is externally determined it operates only at the level of appearance. Beneath that appearance an organic social formation exists. Ethiopia's alliance with the Soviet Union would not have been possible without the Derg's reinvention of Ethiopia as a progressive state. The Derg's performance used the rhetoric of Marxist-Leninism, the economic structures of a command economy and Soviet-style political structures to represent itself in the public arena as a socialist or socialist-orientated state and the exclusion of foreign capital to represent itself as anti-imperialist. The EPRDF in constructing its alliance with America enters into a similar performance using the rhetoric of liberalism, free-market economic structures (and the inclusion of foreign capital) and liberal-democratic political structures to represent itself as a capitalist-orientated, liberal-democratic state. The post transition elections, the Derg trials, and the TGE's public stance on human rights can be read in this context. These performances are played out for the benefit of external allies who can use them to justify the alliance, and its attendant costs, at home. In fact, as I have shown in previous chapters the Derg did not further a transformation in social and economic structures, and it is self-evident that the TGE cannot have done so in the space of six years. However while much of the persona of both regimes can be dismissed as mere performance the relationship between the state and domestic capital (and therefore foreign capital) is important. Furthermore, the support of a powerful ally, however that support is secured, remains a precondition for regime survival.

Capitalist states use aid in part to secure openings for domestic industrial capital.

Since 1990, under the Derg and then the TGE, Ethiopia has been attempting to attract foreign capital to fulfill the functions which domestic (merchant) capital eschews. The conflict between government and merchants under the TGE arises because of the new context of the state's international orientation. If foreign capital is not attracted to Ethiopia fast enough this might create the space for a successful resistance which would unite merchants and peasants against foreign (industrial) capital. The TGE's support for rural land leasing, its opposition to creating a market in land and its intention to open-up so-called virgin lands for development are attempts to remove any basis for an alliance of peasants with non-producing classes.

The failure of either domestic classes or the state to develop agricultural production contributed to the TPLF establishing its right to govern in Tigray. The TPLF's ability to mobilise peasants for small-scale development projects in Tigray was helped by the TPLF's access to and control of food aid. Their distribution of food aid gave them sufficient leverage to enforce the transformation of relations of production and to force changes in the means of production without being explicitly coercive.

The impact of bipolarity and its collapse on marginal states within the international system

The end of the Cold War has had a profound impact on the nature of the international system, and the significance of the end of bipolarity on marginal states should not be underestimated. The manipulation of superpower conflict created a space within which marginal states were relatively free to act (Ottaway, 1984:165): political alliances secured financial and military support without relinquishing control over domestic policy. In the Ethiopian context bipolarity enabled the Derg to halt

industrial development dominated by foreign capital and to extend the role of the state and private domestic capital in the import-export trade, at the expense of foreign capital.

If the Cold War created a space within which marginal states could retain domestic sovereignty despite their dependence on international aid then the ending of the Cold War closed that space. The Cold War as a contest between competing ideologies has been won by liberal democracy and its ideological hegemony is reflected in the imposing of conditional agreements with IMF/IBRD. Many of the political goods which small states bargained with in the international system are no longer viable. In particular, sub-Saharan Africa, with the exception of South Africa, has lost any purchase in the international system. Since the end of the Cold War security in Europe has become a paramount concern and European lobbies in America have successfully diverted resources to fund a two year human resource Marshall Plan (*Arlene Jacquette, USIS*).

The realignment of small states in the international system has weakened state stability and the imposition of conditional agreements has undermined domestic political legitimacy. The weakening of state power heightens class struggle and social upheaval as subaltern groups compete for state power in weakened states. Specifically, in the Ethiopian context, the withdrawal of Soviet political and military support and the realignment of the international system caused the Derg regime to collapse from within and allowed opposition forces to occupy the space created by the regime's dissolution.

The precise relationship between the withdrawal of Soviet support and the collapse of the Derg is impossible to specify. However, I would contend that, firstly, as in the

Soviet Union itself, nationalist forces were the opportunistic benefactors of state weakness and only secondary forces in producing that weakness. The Soviet Union provided Ethiopia with the resources to defend the territorial integrity of the country. This was absolutely crucial to the Derg's survival in 1977 during the Somali invasion. Ethiopia's alliance with the USSR, above all, allowed the Derg to attempt to impose military solutions to political problems. Conversely, the withdrawal of Soviet support meant that the Derg could no longer hope to maintain its territorial integrity by force. Secondly the Derg introduced economic reforms in order to remove the obstacles to renewing its relationship with the West. These in turn undermined the Derg's domestic legitimacy since they entailed opening the economy to foreign capital. Finally, Marxist-Leninism, with the collapse of the Soviet Union, had become the ideology of the vanquished. The Derg could not rely on this new form of legitimacy to sustain its rule but nor could it any longer claim to be the defender of Ethiopian nationalism.

However whilst in general the ending of bipolarity has left marginal states vulnerable to incursions on domestic sovereignty by international bodies, the TGE's promotion of a new political good in regional stability has allowed it considerable room for manoeuvre within the conditional agreements imposed by the IMF/IBRD as part of the Structural Adjustment Programme.

## Conclusion

The state needs domestic legitimation because it depends on domestic capital, accessed through taxes on trade and urban classes, for the maintenance and

expansion of state structures. At the same time the failure of domestic accumulation which the hegemony of merchant capital precipitates forces the state to turn to international sources of finance. Conversely, its access to international resources lessens the need for changes at the productive level. In the post Cold War world the international context of aid is increasingly geared to creating the conditions in recipient countries under which foreign capital can operate. The state is caught between domestic and international class forces. The Derg was able to avoid this conflict by manipulating alliances in the context of a bipolar international division of power. The TGE has reorientated Ethiopia's position in the international system but can exploit regional issues to put a brake on the scale and pace of the transformation of the Ethiopian economy.

## Chapter Five

### THE FRAGMENTATION OF STATE POWER:

#### THE NATIONAL QUESTION IN ETHIOPIA, 1974 - 1991

In this chapter and the next I discuss the ways in which the structure of the economy and the importance of international sources to regime stability has impacted on the structure of power within Ethiopia. My argument is that the strength of the central state has been undermined by the fragmentation of power between the provinces of Ethiopia. The perception of a strong central state, which the literature attests to, flows from a reading of the relative robustness and capacity of local political units as reflecting the will of a central authority. In fact, I argue, local centres of political power have derived their strength and legitimacy, particularly in the north, from parochial sources. The centre, in contrast, has derived its capacity to govern from its access to external resources and from its role in manipulating external alliances. The internal orientation of regional power-holders and the external orientation of central government goes a long way to explaining both the perception of strength at the centre and its evident vulnerability to changes in the international system.

This chapter begins with a brief historical overview of the fragmentation of state power: the reasons why it emerged and the mechanisms which have sustained it. I then set out the shifting pattern of Tigre's incorporation into Ethiopia. I argue that while the southward shift of the Empire marginalised Tigre the strength of local political institutions meant that Haile Selassie never succeeded in decisively asserting the writ of central government over that province. The Derg, preoccupied with the war in the Ogaden and later with Eritrea, failed to recognise the threat that Tigre's political capacity posed for the stability of the central government. I then discuss the

south's position in the Empire and under the Derg. Here I argue that fragmentation of power did not lead to the formation of viable local political institutions. Threats to state stability have therefore only emerged in the southern provinces at times when political weakness at the centre coincided with times when insurgents had access to external resources and alliances. Next I turn to the question of relations between Eritrea and Ethiopia. I suggest that Haile Selassie and later the Derg's intransigence towards Eritrea's demands primarily reflected their concern to maintain control of a territory which is astride major trade routes and was of strategic importance during the Cold War. International recognition of Ethiopia's rights over Eritrea gave both regimes access to external resources and alliances. Finally I discuss the Derg's response to the national question from 1974. I argue that nationalist insurgencies erupted with the revolution, rather than preceding or causing the revolution. The Derg, which borrowed its ideology from the leftist student movement, ostensibly developed a commitment to self-determination. In practice it vacillated between centralism and regionalisation. Pursuing the first through military campaigns and the second by political means. Its political strategy, I conclude, prefigures the EPRDF's own policy on regionalisation: a fact which attests to the enduring need for the Ethiopian state to manage the consequences of the fragmentation of state power. The EPRDF's strategy is discussed in chapter six.

#### The fragmentation of state power: an historical overview

The territorial and administrative reach of the Ethiopian state has fluctuated widely since the founding of the city-state of Axum in the second century AD. Not until the beginning of the twentieth-century were its borders fixed in international law and

corresponding to present-day borders (Keller, 1988:35). Even within that internationally legitimated territory the sovereign power of the central state has often been more nominal than real. Since 1962 and 1974 respectively the conflicts in Eritrea and Tigray have belied the state's claims over these provinces. Prior to these periods of active resistance to central state hegemony it was the structure of power holding in the northern highlands which prevented the consolidation of central authority. Outside of the central highlands poorly developed infrastructure and environmental impoverishment, and the lack of attachment of pastoralists to statehood, have been powerful blocks to rendering state power meaningful. The centre's attempts to extend its hegemony and the struggle of the periphery to resist incorporation, or to redefine the terms of incorporation, has made conflict between the centre (or centres) and the periphery (or peripheries) characteristic of the structure of power throughout Ethiopia's history (Lewis, 1983:5).

While an Ethiopian state can in some sense be traced back to the Axum city-state, it is conventional in Ethiopian historiography to date the emergence of the modern state to 1855 when Emperor Tewodros' took the title King of Kings. This event stands out for two reasons: it marked the end of the Zamena Masafent, the era of the princes (1769 - 1855), in which power was divided between a number of principalities, and it marked the beginning of Ethiopia's engagement with the problem of the expansion of European power into Africa and the Middle East. It is for his response to both of these threats - the internal pressures to fragment state power and the external drive to subdue power - that Tewodros is remembered. His ascension to the throne marked the beginning of the state-led centralisation of Ethiopia. Tewodros claim to the Ethiopian throne, although partially (and distantly) resting on genealogy, was

primarily created through the conquest of the principalities and his legitimacy rested on the military defeat of the princes of the Zamana Masafent. His domestic policy was preoccupied with the crushing of regional powers, as it had been during his shifita (bandit) years. His foreign policy was directed at containing Egypt and Sudan and courting British support. This latter policy led to Tewodros having the British ambassador and some thirty European missionaries detained. That action was an attempt to force the British Government into providing Tewodros with arms and with technical skills. It eventually led to a British military expedition to release the hostages and subdue Tewodros. The ensuing Battle of Magdela was a massacre. In response to his defeat Tewodros shot himself on April 13, 1868.

The Napier expedition was facilitated by the support of Kassa of Tigre who saw in it an opportunity to have himself crowned Emperor. Kassa's support for Britain against Tewodros underlines the continued fragmentation or multi-centredness of sovereign power in this period. Tewodros' control over Tigre and the surrounding regions was tenuous. Kassa took a gamble on the veracity of the British promise to withdraw its troops once Tewodros had been defeated. The gamble paid off and on Napier's return from the Battle of Magdala he left Kassa with guns, ammunition and military supplies. In consequence of this superior military capacity in arms and organisation, Kassa's army of 12,000 defeated Takle Giorgis II's 60,000 strong army in 1872 and Kassa was crowned Emperor Yohannes.

In 1873 Yohannes defeated Menelik (then Sahle Mariam of Shoa, crowned Negus in 1865) and in 1878 Menelik paid homage to Yohannes, marking the success of Yohannes in reconsolidating the empire of Tewodros. Whereas Tewodros had met regional powers with opposition, Yohannes acknowledged the local feudal rights of

tributary kings. Greenfield, using “feudalism” as a marker of sovereign power being fragmented, comments that "...during his reign the feudalism, which had contributed much to the weakness of Ethiopia before the times of Tewodros, revived" (Greenfield, 1965:90). When Yohannes was killed in 1889 fighting against the Sudanese Mahdists, Menelik took the throne. That his bid for power was effectively uncontested suggests both the increasing strength of the Shoa region and Menelik's success in consolidating his power there. Since his coronation as Negus of Shoa in 1865, Sahle Mariam had been consolidating his control of the Shoan plateau and extending his rule southwards. Between 1872 and 1896 the territory governed increased two times. Oromo involvement in Menelik's campaign was considerable - as attested to by the convening of a Shoan-Galla Confederation (Greenfield, 1965:90). Menelik's foreign policy had a lasting impact on Ethiopia: the fixing of Ethiopia's boundaries by international treaty dates from Menelik's reign. Menelik sought to both expand the territory governed - to the limits of the historic Ethiopian state - and to stamp its governance with the trappings of modernisation.

#### Strategies for centralisation under Haile Selassie

Menelik died in 1908 and was eventually succeeded by Ras Tafari. Ras Tafari's claim to the throne, as with those he succeeded, lay with military victory rather than genealogy (although an invented genealogy retrospectively legitimated his claim to rule). Opposition came principally from two regions: Shoa, and the north. Following Menelik's death, Shoa had come under the control of Negus Mikael who was eventually defeated in a coup d'état. The north, under the leadership of Lij. Eyasu."... was in a state of continual strife and the danger of a large scale Muslim rising was

ever present" (Greenfield, 1965:152). Lij. Eyasu was captured and imprisoned in 1921. Ras Tafari was crowned Negus in 1928. In 1929, when there was an uprising in the Ogaden and a revolt of the Azebu Galla in the North, regional opposition again threatened his position. On March 31, 1930 at the Battle of Ankim Ras Gugsa Wolie was defeated and the next day Empress Zaudita mysteriously died. Haile Selassie was crowned Emperor.

Haile Selassie's reign in the period from his appointment as Crown Prince in 1916 to the Italian Occupation in 1935 was essentially concerned with consolidating his position. The balance of centre-regional power relations was ruptured by the Italian occupation, and after the Restoration by Haile Selassie's preoccupation with reunifying Ethiopia. His aim was to reintegrate Eritrea and the Ogaden into Ethiopia and end the fragmentation of power which had characterised Ethiopia throughout its history and which had made it particularly weak in its response to Italian imperialism. Haile Selassie calculated that the inability of the Ethiopian state to withstand the Italian advance was due, in part to the fragmentation of power. The occupation demonstrated how fragile centralisation was. Italian policies further encouraged the fragmentation of identity, while at the same time putting in place the infrastructure which gave Haile-Selassie a stronger base for centralisation after 1941. In the post-war reorganisation of government a new local government structure was put in place which deprived "traditional elites who had previously served as provincial administrators of an enormous amount of discretionary power" (Keller, 1988:75). The reorganisation imposed a uniform hierarchy of administrative units in place of the previous patchwork of traditional provinces. It created 14 regions in addition to Addis Ababa, divided into 102 provinces or awrajas and nearly 600

districts (woredas). Governors were appointed by the Emperor, mostly Shoans. The awarja governor was responsible to the provincial governor-general and was charged with law and order and tax collection. The woreda office extended the law order, security and tax functions that began at the higher level to the rural people and their leaders. Chika-Shums, elected landowners, implemented tax and law functions at a very local level, above them were the Balabats. Both Balabats and Chika Shums subsequently lost their tax-collecting responsibilities which led to a declining interest in their role. Although this structure of local government may appear impressive on paper one observer noted that in 1974 municipal government was "hardly government, being more a system of ruling, employing people and taxing town inhabitants than a source of public services" (Cohen, 1974:25-47). The south, especially the coffee-growing regions of Kaffa and Sidamo, were ruled in a "ruthlessly extractive fashion" (Clapham, 1988:201) by Addis Ababa noblemen and courtiers. Only Tigre maintained a degree of independence from the central state. Indeed, the government structure did more to prevent development than to enhance it. One report commented that , "one of the most serious limitations on the capacity of the government for effective action in all spheres of activity, and particularly in the sphere of economic development, is the nature of the existing administrative structure and the institutional gaps at the centre and between the centre and the province and between the provinces at intermediate and local levels" (Assefa Bequelle and Eshetu Chole, 1969:17). However the character of the domestic economy, as discussed in chapters two and three, would suggest that the purpose of local government structures was not to facilitate development but to enhance the mechanisms of surplus extraction and to contain provincial power- holders.

Nevertheless, the Ethiopian government, under Haile Selassie, asked USAID to participate in a project in 1974 to reform local government in order to facilitate rural development. The Ethiopian government developed a proposal which it said would make local government more responsive to development and rural transformation by involving the rural population more closely in the decision-making process and increasing popular participation in economic and social development. The comparisons with subsequent proposals by both the Derg and the EPRDF to encourage rural development hardly need to be underlined. Cohen, who wrote USAID's report on the proposed reforms, considered that implementing rural projects without the support of local elites was a doubtful proposition since "...it is extremely misleading to generalise on the *dejure* accounts of local government since these factors [lack of effective political institutions, the personal nature of authority, poverty, and illiteracy] generate endless *defacto* variations in the legal model" (Cohen, 1974:22). It was only after the Italian occupation that the modernisation of infrastructure finally began to suppress the disruptive forces of regionalism : "...the achievements of controlling the periphery and building a strong center may well prove to be the outstanding achievement of his [Haile Selassie's] reign" (Cohen, 1974:23). Having said that, because of the underdevelopment of infrastructure and local governors not following central government orders,"The paradox of provincial Ethiopia is that in many ways the local level of politics has remained independent" (Cohen, 1974:24).

## Strategies for managing multi-centred power under the Derg

From 1974 to 1977 the Derg attempted to resolve the contradictions between local autonomy and centralisation by appointing local administrators to run their home areas. The split between Meison and the Derg in 1977 brought that experiment to an abrupt end. After 1979 members of the Derg were appointed as chief administrators in every region except Eritrea and Tigray which came under direct military administration. Nonetheless, a form of local representation was provided by appointments to provincial administration (Clapham, 1988:204).

The 1987 reorganisation of the administrative structure ostensibly returned Ethiopia to civilian rule, with the founding of the Peoples Democratic Republic of Ethiopia (PDRE). The reorganisation divided the country into 24 administrative regions and 5 autonomous regions. Eritrea was given the status of an autonomous region with three administrative regions. Each region had its own assembly and the power to elect its own executive body. Devolved powers varied but, in general, included some control over culture, health, education, development, and local taxation. Eritrea was given considerably more freedom to act than other autonomous regions. All the new regions were based on some combination of ethnic group, culture and language. The intention was that each administrative region would consist largely of one ethnic group. However, no attempt was made to ensure that all the members of an ethnic group lived in one region. Indeed, in the case of the larger groups, such as Tigreans, Somalis, Oromos and Amharas, this seems to have been deliberately avoided.

Tigre's relations with Addis Ababa, 1889 - 1991.

If local power-holders had more internal capacity to govern than the central state did, and they legitimated their rule within the context of local political culture, then this has been especially true of Tigre province. I outline below the process by which Tigre has sought to resist or to redefine the terms of its incorporation into the Ethiopian state. Tigre province became increasingly marginal following the southward shift of the empire's centre of gravity. This partially explains the failure of its incorporation into the modern empire (Clapham, 1988:205). This is a failure which may seem paradoxical given that Tigre formed part of the Ethiopian state from the earliest times. Notwithstanding the marginal place of the province within Ethiopia, the TPLF's success in organising Tigre and seizing power in 1991 is testimony to the continuing robustness of local political units.

*Relations between Tigre province and central government before the Restoration*

Tigrean domination collapsed in 1889 at Yohannes' death and Tigre was reduced to the status of a semi-autonomous buffer zone. Tigre became increasingly irrelevant to the fortunes of the Empire. The focus of tribute and exaction shifted to the newly conquered territories of the south. Cash-crop farming of coffee was increasingly important to the Ethiopian economy and the Djibouti-Addis Ababa railway undercut the importance of the trade routes to Massawa (Clapham, 1988:206). The power vacuum left by Yohannes' death further fragmented power in the province. In the 1930s and '40s the power of the leading families of the province established centuries earlier was still intact. In their attempts to have the Emperor acknowledge them as Negus of the province the Tigrean nobility repeatedly co-operated with Italian Asmara against Addis Ababa. This co-operation with a foreign power should not be

taken as evidence of separatism or nationalism. Rather it was an attempt to subdue local rivals in a contest for the recognition of their role as delegated representatives of the central state (Erlich, 1986:172). By 1930 competition for supremacy within Tigre was between Ras Gugsa of East Tigre and Ras Seyum of West Tigre. Haile Selassie's adroit strategies for balancing the power of the two rases was effective but it also had the effect of blocking centralisation and modernisation in Tigre (Erlich, 1986). Although Haile Selassie had enough power to order the Rases Gugsa and Seyum to Addis Ababa for the coronation and the proclamation of the new constitution in July 1931, by and large his successes in modernising, centralising and restructuring the state in Shoa, Haraghe and the central provinces were not repeated in Tigre.

The Italian occupation was achieved with the active help of the Tigrean nobility who saw in an alliance with a foreign power, not for the first time, the possibility of strengthening their powers vis a vis the Shoan state. Ras Gugsa's son Haile Selassie Gugsa and many lesser chiefs collaborated in the Italian occupation of Ethiopia. After the Restoration those provincial leaders who had collaborated with the Italians were vilified as collaborators and traitors. These terms can only have meaning in the context of an idea of "Ethiopia" and "Ethiopians" which was far from the case at the time. In the initial phase of the restoration Haile Selassie was preoccupied with preventing Tigre from realising its ambitions to either play a more dominant role in the exercise of state power or to secede from the Empire to create a Greater Tigre in unity with Tigrinya-speaking Eritrea. This struggle to define the terms of Tigre's incorporation in post-war Ethiopia is embodied in and clearly illustrated by the 1943 Woyane rebellion. The two options of reformed reintegration or secession polarised

around the contrasting strategies of Ras Seyum and Haile-Selassie Gugsu, respectively.

*Relations between Tigre province and central government after the Restoration*

With considerable military assistance from the British the Woyane rebellion ended in defeat for both factions and the unleashing of a vicious onslaught against the peasantry who, in a vain attempt to prevent control of the means of production being wrested from them, had supported it. Still, although the crushing of the rebellion ostensibly marked the end of regional autonomy, the subjugated nobility continued to be used in and by the administration as a means by which the central state could control the provincial population (Gebru Tareke, 1991:123).

The British favoured an autonomous Tigre after the restoration. However, divisions in British policy and Haile Selassie's manoeuvring undermined the British in Tigre and in fact they were instrumental in crushing the Woyane rebellion. Once the rebellion was defeated Tigre was demilitarised which deprived the leading provincial families of their source of independent power (Erich, 1986). After the Restoration Haile Selassie recognised Seyum's control of Tigre. At the same time the administration of the province was reorganised to give real power to sub-provincial rulers. In addition to administrative reorganisation, the feudal tax system was replaced by a progressive cash tax (which cost the peasantry five times more than the Italian tax), a local independent judiciary was established and the private armies of various chiefs were replaced by a provincial Territorial Army, paid by and answerable to central government (Erich, 1986). Despite these attempts to undermine the authority of the Tigrean nobility, Tigre was the only province in post-war Ethiopia in which local authority was still under the control of old families: the

centralist strategy of Haile Selassie was forced into a compromise with "Tigreanism" (Erich, 1986:194).

Over the thirty years from the restoration to the revolution, Haile Selassie succeeded in smashing the northern oligarchies, undermining their institutional basis of power, but not completely: regional power holders were absorbed into the state bureaucracy and their presence meant that the state was never able to penetrate the countryside extensively. The uneasy compromise which reigned between the central state and the regional ruling classes lasted until the TPLF emerged in Tigre following the 1974 revolution. The TPLF was formed by those student activists who left Addis Ababa for Tigre in the 1970s. They began an armed rebellion in 1975 and wiped out the other opposition forces between 1976 - 78. The Derg's preoccupation with the wave of separatist activity in Eritrea and the Ogaden left the Tigrean insurgents free to interact with the peasantry. The peasantry's support for the TPLF has stemmed from several factors. Initially the TPLF used force to organise the rural population. Other factors pushed the peasantry towards anti-regime activities. The growing ecological crisis, the TPLF's control of famine relief, and the impact of migration on identity made the TPLF's task of mobilising the countryside easier. Despite which the coincidence of interest between the TPLF and the Tigrean peasantry is likely to be strained by the TPLF's ascension to power. It is likely that "Tension between the futuristic orientation of the revolutionary intellectuals and the backward-looking tendency of rebel peasants will persist" (Gebru Tareke, 1991:223).

The southern provinces and central government

It is ironic that the most successful campaigns against oppression by a chauvinist-Amhara state have been pursued from within the Abyssinian highlands. If the northern territories have an historic continuity with the Ethiopian state, and have participated directly in the expansion of state power, the southern provinces have a much more recent connection. These provinces were incorporated by military campaigns initially under the vassal state of Shoa (when it was itself a tributary state of Tigre). Subsequently, as central power shifted southwards they came under the direct administration of the Ethiopian state. Menelik's subjugation of the south was achieved with the influx of military equipment which the rival European powers, especially France and Britain, had used to compete for influence in the region (Lewis, 1983:3). In this respect it is the relationship of the south to the Amhara state, rather than of the northern provinces, which most clearly bears direct comparison with the colonial campaigns of Europeans in the same period. Indeed, Menelik is as often portrayed as a participant in the Scramble for Africa as he is as a defender of the sovereign power of an African state against the destructive forces of European imperialism. The debate is by no means dead, and continues to infuse the rhetoric of the OLF's demands for independence, amongst others. Nevertheless, whether or not the incorporation of geographically contiguous areas into a state's territory can always be called colonial, is a highly contested issue which it is not necessary to resolve in this thesis. What is of concern here is how that incorporation was effected and maintained and what relationship the south had to the centre and how and if it was transformed either by Haile Selassie's reign or under the Derg.

Menelik's assumption of the title King of Kings, following the collapse of Tigrean

domination, marked the most decisive shift of power to the south, or, more precisely, to a central state which focussed its attention on the subduing of the south and the appropriation of surplus from southern producers. This is a process which was largely complete by 1900 (Donham, 1986). It is in that context that, as Dombrowski convincingly argues, Menelik's decision to concede Eritrea to the Italians should be read. The northern provinces were increasingly irrelevant to the ability of the Shoan state to sustain itself and the appropriation of sufficient surplus to enable the survival and expansion of the state was carried out in the south. As I showed in the previous chapters, surplus expropriation was not carried out hand-in-hand with the development of the productive forces but was based on simple extraction. For instance when Harar was conquered in 1887 a total annual tribute of 50,000 thalers was imposed on the city (Darkwah, 1978:123). In addition to paying tribute, provinces had to provide military services and a governor who was an appointee of the Emperors. The Governor was charged with collecting tribute, raising armies and maintaining law and order.

In the south after 1941 the central state was perceived as the defender of settlers against a hostile local population and became the focus of popular discontent. Emerging classes created by the state bureaucracy increasingly used their privileges over taxation and the judiciary to extract more from a stagnant rural economy. Resistance to these increased predations remained fragmented and localised, "seldom transcending provincial boundaries" (Gebru Tareke, 1991:22). The Bale revolt (1963 - 70) and the subsequent Ogaden campaign (1977) are both suggestive of the tenuous nature of incorporation and the fragile authority which the King of Kings exerted over the provinces: as with Tigre, state weakness has invariably been "exploited" in

an effort to redefine or rupture central-provincial relations.

The uncertainty which accompanied the Derg's occupation of power once again provoked regional disaffection. The Derg's first confrontation with would-be regional power-holders came from the south with the 1977 Ogaden invasion. Somalia invaded Ethiopia in June 1977 with the assistance of WSLF forces. By the beginning of 1978 they had occupied vast tracts of the Ogaden and forced the Ethiopian army into its forts at Jijiga, Harar and Dire Dawa. A massive counter offensive backed by Cuban troops quickly decimated the Somali advance. The Derg emerged from the Ogaden campaign considerably strengthened. The war checked the centrifugal tendencies of the revolution (Clapham, 1988:62; Chege, 1979). Subsequently Somali opposition in the Ogaden has been limited to "sporadic guerilla ambushes and occasional acts of sabotage" (Keller, 1988:207). A significant Ethiopian military presence made guerilla actions difficult: by 1985 there were 30,000 troops along the border. The Derg attempted to legitimate its presence by improving the infrastructure and setting up development programmes (Keller, 1988:207-8). In other southern provinces land reform checked the translation of anti-Amhara sentiment into anti-state activity, as Donham argues in his account of land reform in Maale (Donham, 1992) peasants went along with the Derg in order to install a lost moral order by displacing the Amhara "kings" and appointing a new king.

## Eritrea

In addition to these two paradigms of regional power, one in which historically integrated political units compete with incumbents for control of the central state, the other in which local ruling classes hold power by appointment from the central state,

Eritrea provides a third. The Italian colonisation of Eritrea has given it a unique place in Ethiopia's history. Nevertheless, there are parallels with the ways in which Tigrean ruling classes sought to capture sovereign power. It is only in recent years that ruling classes in Eritrea have ceased to perceive their identity in terms of participants in the exercise of central power. The fight for independence which culminated in the 1993 secession of Eritrea was not simply the expression of a separate Eritrean identity it was also central to the process by which a national consciousness was forged. The closeness of political and economic ties between the two states after Eritrean independence is indicative of the depth of the ties between the two countries. Independence achieved in conjunction with a reformed Ethiopian state allows the Eritrean ruling class to participate directly in, and benefit from, the northern orientation of the TPLF. Indeed the EPLF have long considered a close relationship with a reformed Ethiopia necessary for the future peace and prosperity of Eritrea (Markakis, 1988:68).

The unique position that Italian colonisation left Eritrea in, relative to the other provinces, has lent the Eritrean liberation movements their historical credibility and with the foundations of their claim that Eritrea forged a separate identity in the colonial period. Italy's interest in Eritrea was firstly and primarily as a stepping point for the creation of an Italian East African empire. Military imperatives necessitated the construction of roads, railways, ports and airports which united the country. A postal, telegraph and radio network was introduced which increased integration and there was a rapid growth in the urban population (Mayall, 1991:13). Despite these innovations in development terms the impact of Italian colonialism was limited. In 1935 Italy invaded Ethiopia using its foothold in Eritrea as a jumping-off

point and exploiting the fractures in political power in Tigre to extend its occupation over Ethiopia. In 1941, following the Ethiopian-British victory over the Italian occupying army, Eritrea became a British-administered territory and in 1952 was federated to Ethiopia by a UN decision. At the time of federation Eritrea had three main political parties: the Unionist Party, the Democratic Bloc and the Muslim League. Support for the parties divided mainly, although not entirely, along religious lines. The Tigrean Christian majority supported the Unionist Party and incorporation into Ethiopia, the Muslim minority supported the demand for a fully-independent Eritrea. The politicisation of confessional differences flowed from the competition for land between (Muslim) lowlanders and (Christian) highlanders. Similarly, competition for control of the (Italian-created) state was articulated in confessional-ethnic terms. Christians assumed that their ascendance in the state would be guaranteed by unity with Ethiopia. Muslims, not unreasonably, saw any link with Ethiopia as a "grievous political disability" (Markakis, 1988:53). In short, there was little sense of a national identity (Clapham, 1988:207).

In the elections for the national assembly, the Unionist Party was returned to nearly half of the 68 seats. Erlich comments that "These results reflected the reality of the period, namely that an Eritrean nationalist movement was non-existent" (Erlich, 1986:215). It was in response to the erosion of Eritrean autonomy after federation and to the diminishing opportunities for political and economic power that an embryonic Eritrean nationalism began to form. A sense of Eritrean identity which both united the province and ruptured the ties between Tigrinya speaking Orthodox Christians on both sides of the border was a post-colonial phenomenon (Markakis, 1988:57; Young C., 1983:224; Mesfin, 1990). It arose after the federation with

Ethiopia and in response to the intransigence of the Ethiopian authorities, for example in banning Tigrinya in the mid 1960s (Markakis, 1988:57; Keller, 1991:10). The politicisation of Eritrean life which emerged during the British administration and, in particular, between 1941 and 1952 when the future territorial arrangements for Eritrea were being debated, was in sharp contrast to the persistence of autocratic rule in Ethiopia but Eritreans were well represented in Ethiopian government and in economic activity (Erlich, 1983:9). After federation Haile Selassie manipulated the Eritrean parliament to ensure that symbols of Eritrean national identity were gradually eroded until in 1962 the parliament voted to abolish itself and Eritrea was annexed to Ethiopia as its fourteenth province. An embryonic Eritrean nationalism began to form in response to this erosion of Eritrean autonomy after federation and the diminishing political and economic opportunities which accompanied it. In August 1955 the Chief Executive of Eritrea, Tedla Bairu, resigned his post. Tedla had been the Secretary-General of the Unionist Party and an advocate of Eritrean union with Ethiopia. He founded the EPLF in 1970. In 1957 the Muslim President of the Eritrean Assembly, Idris Muhammad Adam resigned and went to Cairo where he founded the Eritrean Liberation Front (ELF) (Erlich, 1986:216-220). The ELF dates the start of its operations to September 1961 when there was what it characterises as a Muslim separatist rebellion in Western Eritrea. Drawing on a Muslim or even an Arab identity the ELF allied itself with the Arab states and sought financial support from the Middle East. Uthman Salih Sabi, the Secretary-General of the ELF saw Eritrea as part of the Arab world and the struggle for independence as an expression of Arab nationalism. His contacts with the PLO and training at a PLO camp in Amman laid the foundation for the PLF (later the EPLF) which

attracted a growing number of Christian Eritreans (Erlich, 1983:26). The incorporation of the Christian majority into the national struggle appears to have been a direct response to the brutality with which the war was prosecuted by the Ethiopian side. However the most substantial upsurge in Eritrean nationalism coincided with the 1974 revolution. Between 1974 and 1977 active fighters in Eritrean nationalist armies increased from 2,500 to 38 - 43,000. The vast majority of the new recruits being Christian Tigreans (Erlich, 1983:16).

The entry of new non-Muslim recruits stimulated a redefinition of Eritrean nationalism, undermining its religious and Arab orientation and replacing it, not with a Christian domination, but with a new socialist character. Inevitably this was not a smooth transition and the factions of the Eritrean nationalist movements engaged in a local civil war until 1974, by which time the military capability of Eritrean nationalism was "virtually destroyed" (Erlich, 1983:32). The realignment of Ethiopia in 1977 isolated the EPLF from external sources of support. Support diminished because conservative Arab states had no interest in financing a Marxist liberation army, whilst support was also withdrawn by regional Soviet allies following the Derg's alignment with the USSR. Nevertheless, with the Ethiopian state preoccupied by the Ogaden invasion, 1977 was Eritrea's chance to seize the moment and set up an independent state. Lack of support and fratricidal disputes prevented it from pressing home its advantage. By 1978 almost all Eritrea was back under Ethiopian control.

Immediately after the revolution some attempts were made to broker a negotiated settlement to the civil war. General Aman Mikael Andom put together a 19 point peace plan which attempted to resolve the problem without conceding Eritrean

independence. The plan was rejected not only by the Eritrean leadership but also by factions within the Derg. In January 1975 the ELF-RC and the EPLF concluded a military agreement in response to which the Derg officially declared war (Erlich, 1983:54). In 1976 a second plan for a political solution to the national question was proposed which would have given Eritrea regional autonomy. This was also rejected by all Eritrean organisations who now "...conceived of self-determination only as total independence"(Ottaway, 1978:150).

The demands of individuals, especially Eritreans, within the Derg for accommodation with regional identities led to the assassination of Aman Andon in November 1974. Subsequently most of the Derg's few Eritrean members defected to the EPLF. After the assassination of Michael Asegedom at Asmara in January 1977 not a single Eritrean remained. After the 1977 internal coup, in which Mengistu gained control of the Derg, the solution to Eritrean nationalism was increasingly seen in military terms. By the end of 1977 the Ethiopian army was larger than all the other armies of the Horn combined (Erlich, 1983:197). Under the Derg the armed forces expanded six to eight times to nearly 300,000 men, nearly half of whom were stationed in Eritrea (Clapham, 1988:109). Between 1973/74 and 1987/88 the defence budget rose from 105.8 million birr to 1,500 million birr. A final attempt at a negotiated solution was made in 1989 following an attempted coup while Mengistu was in Eastern Europe.

The 1974 revolution had appeared to offer the possibility of resolving the national question in Eritrea. When the PMAC came to power a defacto cease-fire was in effect throughout Eritrea as both sides waited to see the outcome. The programme of the EPLF and that of the Derg appeared to be very similar in many respects. Given

the political affiliations of both sides in the conflict, once the Derg had seized power and certainly by the 1977 realignment, the room for negotiation should have been considerable. A number of factors prevented that promise from being realised. On the Eritrean side, fears of Amhara nationalism and of being excluded from political and economic power in a united Ethiopia persisted. The Derg contributed to a climate of intransigence by its concern that if Eritrean claims to being a sovereign power were conceded then similar demands would be made by other “national” groups. While Eritrea’s special status might have mitigated the impact of Eritrean independence on Ethiopian nationalisms, its self-representation as a distinct national entity was not a claim recognised by most Ethiopians who view it as an historic part of the nation. The Derg also derived its political legitimacy from being the bearers of Ethiopian nationalism; of what might be called, following the Russian example, Greater Ethiopian nationalism. To concede Eritrea would have undermined this crucial determinant of the Derg’s political legitimacy.

The Derg issued its Programme of the National Democratic Revolution (PNDR) in April 1976 and its 9 point statement on Eritrea on May 16 of the same year. The PNDR accorded nationalities "full right to self-government". In particular, "Within its environs, it has the right to determine the contents of its political, economic and social life, use its own language and elect its own leaders and administrators to head its internal organs" (cited in Halliday and Molyneux, 1981:160). The 9 point statement offered Eritrea similar concessions, to be negotiated with "progressive groups and organisations in Eritrea" (Halliday and Molyneux, 1981:161). The perceived veracity of these statements, problems of their drafting by decree rather than negotiation aside (a criticism which could similarly be levelled against the

EPRDF) was undermined by the concurrent preparations for a major offensive against Eritrea using a peasant militia. The Peasant March ended in a massacre by the Eritrean militia. In June 1978 a full-scale military offensive began using the regular army and a more organised irregular force. In Mengistu's speech prior to the offensive he said "The primary objective of the people's revolutionary war is to affirm Ethiopia's historical unity and to safeguard her outlet to the sea and defend her very existence from being stifled"(quoted in Halliday and Molyneux, 1981:163).

The civil war continued indeterminately until 1989 when the Ethiopian government no longer had the resources to fight on. By 1991 central authority had once again collapsed. Unlike 1962 when Eritrean identity was incipient and fragmented, unlike 1977 when the nationalist agenda was fragmented and fracticidal, in 1991 Eritrean nationalism had been infused, through war and famine, with real meaning and the EPLF had sufficient experience of political, diplomatic and military matters to press home its advantage. Eritrea province voted for secession in the April 1993 referendum. Of the 99.8 per cent turn out, 98.5 per cent voted yes to secession and independence was declared on May 24, 1993. The Eritrean leadership has stated that it supports the OAU's continuing commitment to the inviolability of post-colonial borders and is against the balkanisation of Africa.

This brief outline of Eritrean history prompts four questions: firstly, why, given the earlier secession of Eritrea to Italy, did Haile Selassie and the Derg pursue an uncompromising policy of Ethiopian integrity? Secondly, why did the success of the EPLF and TPLF defy the general consensus, the Eritrean partisan literature aside, on the robustness of Ethiopian hegemony over Eritrea and Tigre? Thirdly, if Eritrea was so marginal within Ethiopia because of conditions intrinsic to the province, how

viable can an independent Eritrea be? Finally, has nationalism been the cause of or, as in the USSR, mainly the opportunist beneficiary of state collapse?

*Why Ethiopian unity?*

The significance of Eritrea to Ethiopia in the period from 1952 - 1991 was primarily a reflection of its strategic importance in the context of the Cold War. In the first place it should be noted that the federation of Eritrea to Ethiopia was largely a result of diplomatic pressure from the USA at a time when the USA was interested in an alliance with Ethiopia in order to gain access to its communications station at Kagnaw (Mayall, 1991:14). That it was largely the Eritrean Muslim population which favoured independence would have alerted the USA to the possibility that Islamic states could hold control of the Red Sea. Eritrea's vulnerability to being drawn into anti-US alliances with the USSR or with Arab states would also have influenced the US in favour of Eritrean federation to Ethiopia. The declining significance of Eritrea at the end of the Cold War also helps to explain Eritrea's success in securing independence at this particular time. Ethiopia's control over this strategic resource brought it access to valuable external alliances in the Cold War period.

*Why was the Ethiopian state perceived to be invulnerable to the EPLF forces?*

Most observers suggested that Eritrea's marginal political and economic status was both a source of strength for the EPLF and a mark of Eritrea's weakness vis a vis Ethiopia. Furthermore the Ethiopian state, after 1977, was seen as strong and effective. In order for the liberation movements to succeed it was thought that a weakened state was a necessary precondition. Clapham, for example, in 1988 noted

that,

This marginalisation of what has once been the core region of Ethiopia goes a long way to explain not only its opposition to central government, but also why the subsequent insurgency has been, from the central government's viewpoint so manageable. Possessing few if any resources, astride no major trade route, and culturally and politically cut off from the rest of the country, Eritrea and Tigray have been the battlefield of major political insurgencies ...*without seriously threatening the stability or survival of the state* (Clapham, 1988:206 - my emphasis).

Likewise Erlich doubted that the EPLF would again have the opportunity that it did in 1977, at the time of the Somali invasion, to exploit state weakness and successfully challenge the regime. Paul Henze in December 1990 only five months before the EPRDF forces took Addis Ababa noted that during his field trip in November-December 1990, "I have encountered no one...who expected the military stalemate that persists in Eritrea to change soon"(Henze, 1991:32).

The key to understanding the weakness of the Ethiopian state, and the paradoxical perception of its strength, lies in the relationship of the regions to the centre. Regional state capacity, particularly in the north has been very effective whether state power has been held by 'legitimate' or 'illegitimate' forces. At times when regional power holders have been legitimate, that is to say derived their authority, however tenuously, from the centre then the web of strong regional states has given the appearance of strength at the centre. The centre is externally preoccupied and derives its legitimacy and the best part of its resources from external sources. It is its external

orientation which has led to the weakness of the Ethiopian state at times of change in the international system. If the withdrawal of American support fatally undermined Haile Selassie's regime then the collapse of the USSR had a similar impact on the Derg (see chapter four).

*National Liberation Movements - causes or beneficiaries of state collapse?*

The answer to the question of whether or not national liberation movements provoked or simply benefited from regime collapse probably lies somewhere between the two: the EPLF exploited a vulnerable moment in the state's capacity but it also contributed to that vulnerability and had the organisational capacity to step into the breach and, together with the TPLF, to take control of the state apparatus. Nonetheless, why it was that particular time rather than earlier that the liberation armies assault on the regime was effective has to be answered. Was it simply that by then the armies had built a critical mass, or was it also the Derg's failure on the economic front and the loss of the military and diplomatic support of the USSR which caused the regime to collapse? Both the liberation armies successes and the Derg's failures were factors in causing regime collapse. However, what is most striking is the failure of political will. If states are never so vulnerable as when they reform, then the Derg's reforms in 1988, the shift to a market economy, and the collapse which followed soon after, is indicative of how determinant political will is for the effective exercise of power. The Derg's failure to find a political solution to the separatist claims of the EPLF and its predilection for military solutions also exacted a considerable financial toll. The EPLF's support for the TPLF and its strategic and material support for the final push on Addis Ababa is also indicative of the changes in organisational capacity that the liberation armies underwent between

1977 and 1991.

*The viability of an independent Eritrea*

Although Eritrea was marginalised from political power by the southward orientation of the Empire it still had considerable economic viability. One-third of Ethiopia's industrial capacity was in Eritrea (Erich, 1983:9-14) and it contained Ethiopia's only ports. When the Suez Canal reopened in 1975 the Red Sea once again became one of the most important waterways of the world. Economically Eritrea was second in importance only to Shoa. However the closeness of economic and political links between independent Eritrea and Ethiopia suggests that Eritrea is to some degree economically dependent on Ethiopia. It is presumably for this reason that the EPLF had hoped for,

... a transformed Ethiopia under a democratic regime that will accept and co-operate with an independent Eritrea. To that end it urges other dissident movements - there are at least half a dozen - not to split the country, but to fight for a reformed and united Ethiopia. Understandably, that presumption is not to everyone's taste, especially those who profess to be fighting for national self-determination, and it alienated the TPLF which claims the right to determine for itself whether or not Tigraï will remain with Ethiopia (Markakis, 1988:70).

*The 1974 revolution and the national question*

Prior to the military coup of 1974 the national question was not as crystallised as the debates of the Ethiopian Student Movement suggest: the war in Eritrea was insignificant; Tigraï had been quiescent since the post-restoration rebellion; the

Gojjam revolt had been settled by the granting of tax exemptions; and Bale, broken by a combination of internal weakness and external coercion, was no longer a problem. In short, revolts were particular in their demands and limited in their inclusiveness. Nationalist movements, in the sense of a commitment to a vision of national identity and its political expression had not coalesced by 1974. It is debatable whether or not they have done so subsequently. Nonetheless, when the Derg came to power it was confronted by upsurges in competition for state power - particularly from Eritrea - and an ideological rhetoric preoccupied with questions of national and class consciousness. These concerns, which, as I argue in chapter six, had more to do with the preoccupations of an aspirant bourgeoisie than with the aspirations of the "broad masses", provided the fulcrum of the Derg's ideological development.

The Derg's project was essentially one of national integration, conceived in part to remedy the problems for economic development which the previous administrative structure embodied. Nevertheless the Derg were "prepared to go a surprisingly long way towards conceding Ethiopia's ethnic differences"(Clapham, 1988:199). This was reflected in both the PDRE's constitutional commitment to autonomous regions and the earlier Programme of the National Democratic Revolution (PNDR) of April 1976 which stated that:

The right to self-determination of all nationalities will be recognised and fully respected. No nationality will dominate another one since the history, culture, language and religion of each nationality will have equal recognition in accordance with the spirit of socialism...Each nationality will have regional autonomy to decide on

matters concerning its internal affairs. Within its environs, it has the right to determine the contents of its political, economic and social life, use its own language and elect its own leaders and administrators to head its internal organs (cited in Clapham, 1988:199).

If a national trans-Ethiopian consciousness existed, then it did so more coherently in the armed forces than in any other sector of society. In response to the fractures in national identity of other sections of the elite, and the temporary alliance that the Derg's rejection of feudalism allowed between these disparate sections of an aspirant bourgeoisie, the Derg's ideology vacillated between the twin poles of centralism and regionalism. A great deal its approach to the national question was articulated in Marxist-Leninist terms but owed as much, if not more, to the history of fragmented state power which I outlined above. The promotion of Amhara national identity was not a central theme in post-revolutionary Ethiopian nationalities policy but the Derg did harness national feeling in defence of the revolution. The slogan *Ityopya Tikdem*, Ethiopia First, encapsulates the nationalist sentiments which informed the early years of the revolution (Chege, 1979:369). In December 1974 the Derg proclaimed itself for "Ethiopian socialism" the tenets of which were: equality, self-reliance, the dignity of labour, the supremacy of the common good, and *the integrity of Ethiopia*" (Halliday and Molyneux, 1981:88 - my emphasis). The revolutionary leadership sought to mobilise nationalism as "...a source of popular unity, and to extend its appeal by removing elements of traditional political identity, such as adherence to Orthodox Christianity, which prevented it from serving as a fully national symbol"(Clapham, 1989:12).

Lewis argues that the "promising tinder" of the 1974 revolution was a combination

of provincial northern aristocrats being alienated by the Shoa states "bureaucratic-military bourgeoisie"; the perception of northern peasants that state reforms were jeopardising their traditional kinship-sanctioned land rights; the development of capitalist commercial agriculture in the south; the disaffection of economically-pressed white-collar public employees and Muslim traders; the absence of institutional outlets for expressing political grievances and demands for reform. He argues that a petty bourgeois clandestine radical movement of students (at home and overseas) and junior officers provided the "revolutionary spark to ignite this promising tinder" (Lewis, 1983:6). He argues that once the coincidence of class and ethnic interests which brought the Derg to power collapsed the Derg increasingly relied on centralist policies legitimated through the medium of Amhara culture. In this view the various discontents which the Derg was challenged by were "reactive ethnic and regional nationalisms".

Halliday and Molyneux argue that although provincial revolts had not played a direct role in the overthrow of the imperial regime "the revolts of the preceding years, in Bale and Eritrea, helped to weaken the imperial state and to divide its personnel into rival factions" (Halliday and Molyneux, 1981:156). The argument which I am putting forward here is that these revolts expressed the fragmented nature of political power under Haile Selassie. The upsurge in sub-national conflict, they argue, was a response to the centralising tendencies of the new regime, itself indicative of the role of the Derg as bearers of the state structures of a new mode of production (Halliday and Molyneux, 1981:158). They identify four other factors which provoked national or regional revolts. These were firstly, the discriminatory structure of power under the imperial state; secondly, external intervention; thirdly, the inability of the Derg

to seek political solutions; and finally, factionalism within the Derg and within the opposition made negotiation more difficult.

Before the consolidation of a unitary government in February 1977, there were several versions of a political solution to the national question in circulation. Meï'son, who exerted considerable ideological influence on the Derg, recognised, in its March 1975 programme, the right of secession in principle - although this was hedged with practical restrictions. The EPRP proclaimed the right of nations to self-determination without any reservations. The Derg vacillated between accepting the right of self-determination and promoting the nationalist content of the revolution. While secession obviously posed problems for a project of secular national unity the Derg apparently recognised that some concessions had to be made to the multi-centred character of state power, even if only at a rhetorical level.

#### A Leninist nationalities policy

The Leninist discourse on national self-determination, on which the Derg and its ideological mentors so heavily drew, is not an especially coherent thesis. Lenin's view of the self-determination of nations was essentially a pragmatic response to an issue starkly revealed by the 1914 war: the nationalist sentiments of the European working-class. The revolutionary government in the USSR in October 1917 declared its commitment to self-determination for the nations and territories which had constituted the Tsarist empire. Self-determination up to and including secession was a constitutional right in the Soviet Union. Yet at the end of the Civil War all the territories of the former empire, with the exception of Finland and the Baltic States, had been reconstituted as the Soviet Union. The twelve republics which constituted

the USSR had the formal right to secede. By the time of the Great Patriotic War, Russian nationalism was a core doctrine of Soviet state building. Nevertheless within the republics, there was a considerable degree of horizontal integration:

Powerful integrative forces were released through the process of industrialisation and accompanying expansion of mass education and intensive political socialisation. At the same time, however, the retention of a federal administrative framework safeguarded the territorial loci and formal ethnocultural institutions of most minorities, thereby preserving the bases for political manifestations of national attitudes(Rakowska-Harmstonem 1974:2).

Leninist nationalities policy, as set out in the Soviet Constitution was an exercise in pragmatism: designed to undercut nationalist opposition by satisfying its core demands. The extent to which at any one time the Soviet state did satisfy the regions was also the degree to which it alienated its core constituency: Greater Russia. That same tension, between an inclusive and an exclusive national identity also plagued Ethiopian national policy. Increasingly, and particularly at moments of crisis (the Great Patriotic War, the Somali invasion in 1977, the civil war in Eritrea) state personnel encouraged the meshing of its own identity with that of the core national identity. Its implementation by the Soviet state displayed the same ambiguities that the Ethiopian state displays in its national policy. A key difference between the two states was that while the Soviet Union's rapid development meant that the USSR could deliver a substantial degree of political and economic power to regional governments, with the possible exception of Eritrea (with its industrial base, relatively developed infrastructure, access to the Red Sea, independent relations with

Sudan and Egypt, etc.) Ethiopia could not. Therefore even when opposition was expressed in nationalist terms the real object was, and is, control of the central state and through it access to the control of external resources.

## Conclusion

Assessing the capacity of the Ethiopian state is rendered particularly difficult because of the complex and shifting relations between local and provincial rulers and the central government. Any generalisation of centre-regional relations is also problematic because of the very different histories of incorporation of the northern and southern provinces into Ethiopia. In the broadest terms centre-regional relations have been characterised by a fragmentation of power. It is one of the paradoxes of the Ethiopian state that it has been credited with being robust and effective and yet twice in two decades its rulers have simply given way in the face of what should have been containable assaults on its legitimacy. It is in this issue of the fragmentation of power that a resolution to that paradox can be found. Power has been both spatially and personally fragmented. Personally fragmented in as much as power-holders, at least in the Abyssinian highlands, have derived their status from local social mores, practices and networks. Their legitimacy owes little to its supposed source as holders of the delegated authority of central power. In the south where local rulers have been appointed by central government decree and where, by and large, they have held few, if any, local connections, power is not fragmented in the same manner. However, the underdevelopment of the infrastructure of communications has prevented the consolidation of vertical links whilst the absence of local roots, and the meshing of ethnicity and class, has undermined the

consolidation of horizontal ties. The underdevelopment of the infrastructure of communications has also prevented vertical links forming between northern aristocracies and central government. In this sense power has been spatially fragmented: limited by the failures of communications to particular spaces and notably to urban centres.

The fragmentation of power derives from the interlocking of several aspects of, and blocks to, state and nation-building. In the first place, as I noted above, the underdevelopment of infrastructure has rendered ties of communication between the provinces and the centre, and even within the provinces, rather fragile. By contrast horizontal integration, at least in the northern provinces, and albeit in pockets of relatively small political units, was strengthened by the relationship between peasants and rulers as it was structured by *gult* and *rist* (Donham, 1986). After the 1930s, in response to state action, rural producers identified a commonality of interest with local expropriators against the encroachments of centralism and bureaucracy. State action ranged landlords against the state as competitors for the control of cultivators and their products. Rarely did the rural revolts which state centralism provoke lead to intra-class solidarity. Competition between peasant producers for land and survival meant that peasant solidarity was "transient at the regional level and almost unknown at the national level" (Gebru Tareke, 1991:79). The primary contradiction which emerged was between the state and the agricultural population. Each of these factors prevented the consolidation of state power so that

Almost to the last days of its life, the monarchical state struggled for domination in the rural areas against powerful hereditary local and regional forces. Inherited patterns of authority and deeply rooted

sectoral identities and loyalties stubbornly resisted full absorption by the state (Gebru Tareke, 1991:49).

The stability of local powers tied by tribute networks into the centre has given the Ethiopian state the appearance of robustness, of capacity and of political and administrative reach. However the evident fragility of the centre in the face of effectively pursued counter-claims (as starkly revealed in 1935 at the time of the Italian occupation, in 1974 with the Derg's coup d'état and again in 1991 with the TPLF's seizure of power, as well as in local revolts such as those in Gojjam, in Bale and in Tigre) suggests that this capacity is more apparent than real. It would seem that in fact the state is made up of discrete units with considerable capacity loosely linked by fragile ties to a central state which itself has limited internal capacity. Hence although "The architects of modern Ethiopia hoped to build a single society through political centralization reinforced by cultural homogenization the new state never completely destroyed the basis of local power, nor did it fully penetrate and control the rural population" (Gebru Tareke,1991:28).

I have argued in this chapter that the structure of political power in Ethiopia has been characterised by fragmentation or multi-centredness. For historical reasons Tigre and Eritrea have formed particularly cohesive units of local political power. In Tigre the particular structures of local political power enabled the TPLF to forge a sense of provincial identity. As in Eritrea that process was partly in response to the intransigence of Haile Selassie and especially of the Derg in attempting to force centralisation. In the south fragmentation of power has worked against the nationalist would-be bourgeoisie as much as it has against the centre in its efforts to forge a cohesive political and economic unit from the diverse provinces of the Empire. The

Derg, whose origins in the armed forces gave them a more coherent sense of national identity than existed in other factions of the opposition, attempted to break local power holders and by that action increase centralisation. The EPRDF is returning to an older pattern of state building which recognises that local political units, at least in the Northern highlands, have enough cohesion to force the central state to negotiate the terms by which provinces are incorporated into Ethiopia.

## Chapter Six

### THE NATIONAL QUESTION AND THE TRANSITIONAL GOVERNMENT

This chapter is concerned with the nationalities policy which the Ethiopian People's Revolutionary Democratic Front (EPRDF) has implemented since taking power in 1991. What it does not address is the issue of national identity. It does not examine whether or not regional self-determination will empower the populations of Tigray or Oromia, of Amhara or Afar; or whether or not Ethiopians, the vast majority of whom are subsistence farmers feel that their national aspirations were suppressed and are now being realised. Very little social anthropology or ethnographic research has been done in Ethiopia. It is hard when reading the debates of, say, the Ethiopian Student Movement, or listening to EPRDF party members on the importance of national identities, to avoid the conclusion that the understanding of the national question reveals the preoccupations of the elite more than the realities of peasant consciousness. How could it be otherwise? with a few outstanding exceptions the peasant voice in Ethiopian history and politics has been regrettably absent. Nor does this thesis do anything to redress the balance. The paucity of ethnographic work on Ethiopian farmers combined with the necessarily elite bias of my own research, has meant that I have not attempted to come to any conclusions about the meaning of nationalism for Ethiopians: very little can be said about it with conviction or authority. It is of course a significant debate. I only say that, at least in this instance, we do not yet have the materials to ground the debate in the realities of people's lives. Furthermore, the discourse often seems less of a debate and more of a taking of positions which rarely seem to engage with one another. Having said that, my view, based on research on nationalism and nation-building in the USSR and in Ethiopia

under the Derg, is that nationalism is a politicised identity which forms, under certain conditions, around contests for the seizure of all, or some part of, a weakened state power.

What this chapter does address is the implementation of the regionalisation policy. Regionalisation has played a prominent part in the story of political change in Ethiopia since 1991. It is the central plank of EPRDF policy. The EPRDF is the coalition of nationalist-democratic parties which overthrew the Derg in 1991 and formed the transitional government. That coalition is dominated by the TPLF who took up arms against the Derg in 1977. They have consistently argued both prior to and since their seizure of power for a reassessment of the place of Tigre province in the national polity: for autonomy within a reformed national state. Until the late 1980s they espoused Marxist-Leninist politics and practice. Although they now refer to themselves as revolutionary democrats the influence of a specific variant of Marxist-Leninism is still very much apparent in their solution to what they argue is the fundamental question for Ethiopia: the relationship of non-Amhara nationalities to the central state. Their steadfastness in pushing through the regional policy is in some contrast to their vacillation on economic reform. They have staked their political legitimacy on the outcome of ethnic federalism. They have argued that it is an essential precondition for economic regeneration. On a wider scale they have flagged it as a model for the continent and apparently the major donors - the IMF, the IBRD and the USA - also view it in that frame.

This account of regionalisation under the Transitional Government and later under the Federal Democratic Republic (FDRE) is based on interviews with EPRDF officials, with academic and independent institutions and with key representatives

of the donor agencies (USAID, IMF, IBRD, UNDP, European Commission). Unfortunately I was not able to arrange interviews with any of the officials working for the regionalisation office in Addis Ababa. It also draws on reports prepared for USAID, UNDP on various aspects of regionalisation and on the World Bank - TGE public expenditure reviews. As well as on the Charter, the Proclamations on regionalisation and on the relevant sections of the Constitution.

This chapter begins with the logistical issues of regionalisation. It looks at the legal framework for implementing regionalisation: the Charter, Proclamation 7/1992 and the Constitution. I discuss the significance of the similarities between these three pieces of legislation. These are similarities which I argue are indicative of the extent to which the EPRDF has determined the policy framework, and continues to do so. I argue that the EPRDF derives its right to rule, in the first instance, from its military victory over the Derg and that it used the transitional period not to put in place the mechanisms for participatory government or to initiate an open-ended debate on how Ethiopia should be governed, but to enforce its particular vision. This is a vision honed over seventeen years of civil war of what the relationship of Tigre province should be to the central state. The EPRDF has taken the issues which were at stake during the Civil War and extended them as a principle of government and for the allocation of resources to the rest of Ethiopia. I then discuss the problems with implementing the legislation and giving content to the form of self-government. In particular the lack of capacity to govern outside of the central highlands and secondly, the disparity in revenue generation which in practice reserves the substance of economic and political control to central government. I argue that because of these problems the form of self-government is not matched by the content and that,

because of the legal, political and economic obstacles to self-determination, autonomy is largely a political myth. Having discussed the logistical issues, I then turn to the political and economic goals of regionalisation. In this section I show that the EPRDF's regional policy attempts to reserve a very limited sphere of government to the member states and more substantial political issues and all economic policy to central government. I argue that this is an unrealisable objective since provincial politicians will use control of local state power to expand their economic base. Since the revenue sources reserved to them have rather limited potential this will lead to either intensive exploitation of subsistence farmers or conflict with central government over the rights to regional resources. I also argue that realisation of the economic goals of regional policy depends on a more, not a less, coercive and extractive regional state-society relationship. This is because the TPLF have confused their ability to mobilise the peasantry in civil war with the ability of national leaders to involve their population in development in peacetime. Finally I turn to the international dimensions of the regional policy. My discussion here centres on the political climate of the international system and on the unassailable place which national self determination holds as a principle of state organisation at the end of the Cold War.

### Coming to power

The EPRDF is a coalition of parties created by, or at least sponsored by, the Tigrean People's Liberation Front (TPLF). The TPLF's military victory guaranteed it a central place in the transitional government. However, recognising the difficulties which it would face in securing political legitimacy as a Tigrean government the

TPLF sponsored the creation of a number of parties - "People's Democratic Organisations - and brought them together as the Ethiopian People's Revolutionary Democratic Front (EPRDF). This coalition of forces which is widely recognised as being a TPLF front has a firm grip on political power which originated with its military victory and continued with the shaping of the transition period and subsequent events. The parameters of political discourse during the transitional period were set by the TPLF within the EPRDF. To this extent, at least, the Transitional Government (TGE) established by the liberation armies did not decisively break with the tradition of Ethiopian politics. Victory in war over rival leaders, often with the backing of foreign powers, has been an indispensable condition of the right to rule since at least the mid eighteenth century. This is an obvious point but it is an important one. It raises questions about how deep the legitimacy of the EPRDF's mandate is and how they can transform themselves from the liberation forces of an Ethiopian province to a government with a national writ. The Derg's claims to political legitimacy were repeatedly sapped by its military origins. The importance which the Derg attached to founding the Workers Party of Ethiopia can be explained as an attempt to recast its image. The TPLF has also sought to obscure the fact that its claim to power rests on its military victory. The process of political consultation which accompanied their coming to power and which has been a prominent feature of their subsequent rule is intended to obscure these origins for both domestic and international considerations. The more or less successful attempt to confer legitimacy on the TPLF's rule began in May 1991 with the London Conference where the EPRDF and the EPLF met with Herman Cohen, American Assistant Secretary of State for African Affairs. An independent

committee of Ethiopian exiles and Ethiopians released a press statement on June 6 expressing their concerns about the peace conference. In particular they noted that the proposed negotiations between the Ethiopian government, the EPRDF, OLF and EPLF never took place. That the US government instead held separate consultations with representatives of each of these groups and entered into separate accords with the EPLF and the EPRDF. The EPRDF was formed without the participation or consent of the OLF. Following the London Conference on the TPLF's occupation of Addis Ababa the EPRDF began to construct a legal framework for their rule with regional autonomy at its centre.

The legal framework which was constructed to regulate their rule cannot entirely be dismissed as a facade which disguised the true locus of power. This is so not least because it did so rather ineffectually. There can be few people in Ethiopia who ever doubted who was in power during the transition period, or that the EPRDF would continue in government after the elections. What the legal framework unquestionably did was to set the parameters of the political discourse of the transition period. The political process which the EPRDF initiated was capable of incorporating opposition groups, even of providing them with an active role in the TGE, but the parameters of political debate, the defining of the issues on the table, were circumscribed within the framework of the TPLF's discourse. The EPRDF itself was dominated by that discourse and the various national people's democratic organisations which make up the EPRDF coalition derived their ideological outlook from what is essentially their parent organisation, the TPLF.

It could be objected with some justification that the legal framework institutionalised the pre-existing parameters of political debate, that is to say that what opposition

there was to the Derg formulated their resistance primarily in terms of the right of linguistically homogenous communities to govern themselves and the manifest injustice of being ruled by , at least in the OLF's paradigm, a colonial power. But the legal framework did not simply ask the questions, it also provided the answers. It did so in opposition to at least the OLF's preferred remedy: independence for Oromia with Addis Ababa as its capital. The OLF was hoping for a settlement similar to that which the TPLF agreed with Eritrea. The TPLF was not prepared to go that far. This was perhaps an early sign that the unconditional right to self-determination is rather less than it seems. For, as I hope to show, the EPRDF is not as cavalier about the unity of Ethiopia as it often presents itself. Underlying the regional policy is an assumption that the EPRDF can ensure that the regions remain part of a federal Ethiopia. Dawit Yohannes explaining the EPRDF's stance on the national question underscores this assumption when he says that,

...one of the basic reasons we differ from the OLF and in Somalia [region] the ONLF is that they think they can create an Oromia state or a Somali state and conserve the resources within it. But..they have to join hands with the other national groups to exploit [resources] (*Dawit Yohannes, TGE*).

All opposition groups in Ethiopia focus on the same issues: national self-determination, land, and nationalisation. The opposition in Ethiopia is derided, within the EPRDF and within the donor "community" for its incoherence, intransigence and the poverty of its political discourse. Nor can it be denied that the opposition is incoherent, intransigent or that its political discourse is underdeveloped and weakly articulated. It could be argued that the EPRDF dominate the TGE for

these reasons. The opposition does bear a responsibility for creating the conditions within which the EPRDF can represent its politics as uncontested, its vision as a nationally agreed objective: that does not alter the fact that the politics of the transition period are the politics of the TPLF expressed through the vehicle of the EPRDF. Nor does it undermine the claim that the legitimacy of the TGE was derived from the EPRDF's victory over the Derg in the civil war.

The National Charter expressed rather than constructed the EPRDF's right to govern. In it the political objectives of the TPLF are articulated and consequently the issue of self-determination for "nationalities/nations" is written out of the debate. There was never any question about how the nationalities issue should be resolved. The commitment to self-determination derives from the political program that the TPLF developed during the civil war and the EPRDF's "revolutionary-democratic approach" (*Dawit Yohannes, TGE*) brooks no argument with its resolution of the national question. The EPRDF dismisses the objections of the opposition, arguing that "These objections to the regional policy are not really of any concern since the EPRDF explains the correct and democratic position" (*Dawit Yohannes, TGE*).

The Charter and the legislation which flowed from it prejudged the issue and to this extent the consultative process on the constitution was a sham. The political principles expressed in the constitution are those of the EPRDF and again, the ascendancy of the EPRDF's political discourse is derived not from the legal framework, not from the consultative process, but through the silencing of the vanquished voice. It could be objected here that the vanquished voice was that of the Derg's whose voice should rightly be silenced. In fact the TPLF's ascendancy is read by many non-Tigreans as a victory of Tigre over Ethiopia. In many respects this

judgement is correct: the TPLF, whose mandate in Tigre may be more rooted and less contested, has extended its mandate, by force of arms, over Ethiopia and reads all contestation of its fundamental principles as the illegitimate protests of the vanquished. As one EPRDF Central Committee member put it: "we are for peace and democracy: how could anyone oppose us"? To which one could add the repeated exhortations of donor representatives that, "well, after all they won the war".

The legal framework of regional autonomy

### *The Charter*

In what follows I set out and discuss the provisions contained in the Charter, in the subsequent legislation on regionalisation and in the Constitution on the nature and remit of the member states. The Charter flags the TGE's intention to establish "ethnic federalism". The subsequent legislation defines the regions, and sets out the separation of powers between regional and central governments. The constitution, with some minor revisions, retroactively imbues the legal framework with the legitimacy of a democratically drafted constitution.

The Charter was the basic legal document of the transition period. It was drawn up at the Transitional Conference held in Addis Ababa from July 1 - 5, 1991, and published in *Negarit Gazeta*, (No. 1, 50th Year on July 22, 1991). It is primarily concerned with the implementation of two key aspects of the EPRDF's programme: development and democracy and the linking of the realisation of both to the division of Ethiopia into units of local self-government, determined on the basis of nationality.

The Charter has five parts and a preamble. The preamble, in its second paragraph,

promises

a new chapter in Ethiopia's history in which freedom, equal rights and self-determination of all the peoples shall be the governing principles of political, economic and social life (TGE, 1991 - my emphasis).

Part One of the Charter is on democratic rights and has two articles. Article one on Ethiopia's adherence to the UN's Declaration on Human Rights and Article Two in which "The right of nations, nationalities and peoples to self-determination is affirmed". In the Charter, although not in the Constitution which supercedes it, the right to self-determination of independence is limited to instances when the concerned unit of self-government is convinced that the right to self-determination within the federation, is "denied, abridged or abrogated".

Part two of the Charter is on foreign policy. Article 5 is of particular interest for providing local governments with "the right to establish direct contact with relief organisations with respect to relief work". This may have been simply a pragmatic measure to facilitate speedy resumption of urgent relief work which had been interrupted by the interregnum, but it is worth noting that direct contact with relief agencies provided the TPLF with one of the means by which it established its legitimacy in Tigre during the Civil War.

Part three of the Charter sets out the structure and composition of the TGE. A Council of Representatives appointed the Chair, Vice-Chair and Secretary of the Council of Members. The Chair of the Council of Members was Head of State with responsibility for appointing the Prime Minister. The Prime Minister nominated the members of the Council of Ministers. The Council of Representatives had to approve

the appointment of the Prime Minister and the nominations to the Council of Ministers. It is not clear what the procedure would be if they did not approve of the appointment and/or the nominations. The Council of Representatives was composed of representatives of national liberation movements, other political organisations and prominent individuals. The Council of Members should have "broad national representation". The Charter stipulates that the Head of State, the Prime Minister, the vice-chair and secretary of the Council of Representatives should be from different nations or nationalities.

Part four sets out the Transitional Programme. Articles 10,11 and 12 address the process by which a constitution would be drawn up and adopted prior to the holding of elections to a National Assembly, within two years, six months, that is to say, by January 1994. Elections to the National Assembly were held seventeen months after this deadline expired, in May 1995. The inaugural meeting was in August of the same year. Article 13 instructs the TGE to pass legislation "establishing local and regional councils for local administrative purposes defined on the basis of nationality." Elections to these local and regional councils to be held within three months "wherever local conditions allow". Articles 14 through 17 give priority in relief and rehabilitation to the former war zones, and to "hitherto neglected areas".

### *The Proclamation*

The Proclamation (No. 7, January 14 1992) which gave content to Article 2(b) on the right of each nationality to "Administer its own affairs within its own defined territory..", and to Article 13 of the Charter on the holding of elections to local and regional councils, defined on the basis of nationality, was published in January 1992. The elections were held in June of the same year. It is worth stressing that the

authority to adopt legislation providing for (sub) national self-government is derived not from the Constitution but from the Charter which thereby preempted the findings of the consultative process on the constitution.

The Proclamation (7/1992) has five chapters. Chapter one sets out the definitions of terms including "Nation", "nationality", and "self-government". It divides the country into 14 regions, each, with the exception of regions 2 (Afar), 4 (Oromo) and 5 (Somali), having three or more nationalities under its jurisdiction. Chapters two through five cover the structure and powers of regional governments and of the Wereda administration, the finance and budget of regional governments, and various miscellaneous provisions.

The nationalities have been identified largely on the basis of linguistic - cultural criteria and largely reflect the work of the Derg's Institute for Nationalities. Other criteria, particularly population size, has apparently been used to group nationalities where otherwise the region would be relatively small. The nationalities living within the regions do not have equal status. Of the 63 nationalities which have been identified 46 may constitute themselves as national or regional self-governments. Harar and Addis Ababa (regions 13 and 14, respectively) are chartered cities. No attempt has been made to define the nationalities living in Addis Ababa. Harar City has jurisdiction over the "Hareri Nationality". Chapter 1, (Section 3, sub section 4) reserves "The special national interests and political rights of the Oromo over Region Thirteen and Region Fourteen". These regions are directly accountable to central government. Adjacent self-governments can jointly establish one larger Regional self-government. Regions 7,8,9, 10 and 11 have done so and are now known collectively as the Southern Ethiopian Peoples Administrative Region (SEPAR). The

borders of Woredas that existed prior to 1974 have been taken as the basis for determining the borders of national self-governments.

There are considerable limits to the rights of Regions to self-government. Regional governments are "in every respect, entities subordinate to the Central Transitional Government". (Chapter 1, sec. 3, sub-sec.3). The political power and legal personality which the Proclamation imbues them with are "Without prejudice to the supreme political power of the Central Transitional Government" (Chapter 1, section 6 - emphasis in the original). The following areas of responsibility are specifically reserved to Central Government: defence, foreign affairs, economic policy, conferring of citizenship, declaration of a state of emergency, deployment of the army, printing currency, major development establishments, and major communications networks. Regional governments have dual accountability - to their electorate and to the Council of Representatives.

### *The Constitution*

Turning to the Constitutional provisions on self-government what is very clear is the similarity between the earlier legislation and the right of self-government embodied in the Constitution. The Constitution provides for "an unconditional right to self-determination, including the right to secession" (Article 39,(1)) The Constitutional procedure for secession is that the legislative council of "any nation, nationality or people" approves by a two-thirds majority the demand for secession. The Federal government then has three years to organise a referendum on the question of whether or not to secede, which must be supported by a majority vote. A transfer of power and division of assets will then be made. Self-government up to secession includes the right to speak, write and develop its own language, express and promote its

culture and history and to establish institutions of government in the territory that it inhabits and to equitable representation in regional and national governments.

The member states of the Federal Democratic Republic of Ethiopia are: Tigray, Afar, Amhara, Oromia, Somali, Benishangul/Gumuz, SEPAR, Gambela Peoples, Harari People. According to the Constitution the states are to be delimited on the basis of settlement patterns, identity, language and consent of the people concerned. Nationalities living within the states concerned can establish their own state, providing that they can obtain a two-thirds majority of the State Council and that the demand is supported by a majority in a referendum and that the new state joins the FDRE. Addis Ababa is within the Oromia state and in recognition of that "The special interest of Oromia in Addis Ababa shall be respected in the provision of social services, the utilization of natural resources and in joint administrative matters"(Article 49(5)).

Table 2 shows the allocation of powers to central and regional government under the TGE and under the Federal Democratic Republic (FDRE). It clearly shows that central and regional governments were allocated the same powers under the Constitution as they were by the earlier Proclamation. This once again reinforces the point that the regional legislation derives its framework from the EPRDF's convictions and its legitimacy from their military victory. Secondly it shows that under the Proclamation no powers were fully autonomous, with the exception of owning property. Nor are the state powers under the Constitution autonomous of the federal state: they have to be consistent with national standards and laws. The states are bound by the Council of People's Representatives Labour Code, Commercial Code, and Penal Code (although the member states may enact penal laws in matters

that are not covered by Federal legislation). Under both the Proclamation and the Constitution, the commanding heights - defence, foreign affairs, the economy - are reserved to the Federal Government. States, however, do not seem to be subject to the same dual accountability that regions were, although they are required to "respect the powers of the Federal State".

One of the most striking aspects of the legislation is its continuity. Despite the fact the Proclamations were issued two years before the Constitution was published the Constitution repeats, with only minor changes, the provisions of that legislation. Either the EPRDF had its finger so firmly on the pulse of the nation that it could predict the outcome of the consultative process or the outcome was a foregone conclusion and the national question was never up for grabs. The consultative process was more an exercise in education or propaganda, than in consultation.

Elections to Regional Councils, the Constituent Assembly and the Federal Council  
After the EPRDF defeated the Derg regime in 1991, elections were held in 1992, 1994 and again in 1995. The 1992 elections were for regional councils, the 1994 elections appointed the Constituent Assembly and the 1995 elections were for both regional and federal councils. International observers were present at all three elections and in general concluded that they were "free and fair". Elections in Afar, Somalia and Harar (Regions 2,5, and 13) were postponed on each occasion; although in all three regions elections were eventually held. Opposition groups withdrew from the electoral process in 1992 and did not participate in any of the subsequent elections. If the opposition had participated the EPRDF's landslide victory might have been less decisive. In general, donor agencies concurred with the EPRDF's

view that opposition groups withdrew because they would have been unequivocally defeated in the election because their base of support is very small, and certainly much smaller than their pretensions to represent national groups suggested. The opposition groups themselves seemed to agree that they would be defeated in an election but only because the EPRDF controlled the media, the army and the police. In short, the opposition parties took the view that by a combination of propaganda and coercion they would be prevented from campaigning effectively. In addition to these obstacles, the political authority which their incumbent status bestowed on the EPRDF made it unlikely that the electorate would vote against them. In any event, EPRDF member parties took over 90 per cent of the vote in all three elections. In the elections for the Constituent Assembly, arguably the most important election since the Assembly approved the constitution and set the dates for the Federal elections, the EPRDF secured 491 out of 548 seats. In the 1995 elections the EPRDF took nearly all the seats on the Federal Council and the EPRDF controlled all the Regional Councils. The May 1995 elections established the clear hegemony of the EPRDF. In most regions the elections were very controlled, except in the frontier regions of Afar, Somalia, Gambella and Benishangul and Harar. The weight of the EPRDF victory ensured that even where there was an elected opposition it could not threaten the centre. Lyons, who was in Addis Ababa to organise the donor observation of the 1995 elections has commented that, "The EPRDF skilfully employed a variety of mechanisms to control the transition and to assure that it ended with the ruling party firmly in command"(Lyons, 1996:141).

During the 1995 campaign, notwithstanding a high electoral turnout, interest in the elections seemed to be very low. The dominance of the EPRDF in campaigning

and propaganda meant that the EPRDF's core issues, in particular the nationalities question, dominated the campaign. This meant that other issues which might have resonated with the electorate, e.g. devaluation, land ownership, food security, did not form part of the campaign. In this respect, while the elections may have been formally free there was no substantive choice on parties or policies. The elections also invite comparison with the elections to the National Shengo (parliament) which were carried out by the Derg in 1987, not least because of the high proportion of registered voters, the high turnout, the token "no" vote, and the predetermined nature of the outcome. Despite the evidence to the contrary, the elections were widely reported in the international media as Ethiopia's first multi-party elections and were taken to be a decisive marker of the EPRDF's break with Ethiopia's autocratic past.

#### Problems with implementing regional autonomy

The legal framework reveals a contradiction between the rhetoric and the reality of self-government and self-determination. The rhetoric of regionalisation implies that regions will have a substantial degree of political and economic autonomy. The reality is that most regions have neither the capacity to make and enforce decisions nor the revenue base which might allow them a meaningful degree of autonomy. Whether or not the EPRDF's regional policy will prove to be more than rhetorical, it has alarmed both the EPRDF's supporters and their critics. Those who support the EPRDF because they view them as a democratic government, are nevertheless anxious about the implications of regionalisation for the territorial integrity of Ethiopia and about the fragmentation of identity which they fear it will lead to.

### *The capacity of regional government*

A lack of capacity covers a multitude of problems which are structural blocks to the implementation of any meaningful degree of self-government. In 1992 a UNDP report expressed the problem thus "Outside of Central Government there are only fragile political institutions. Administrative capacity at the regional and district level is almost non-existent" (Haregot et al, cited in Picard, 1993: Appendix 3). To give a fuller flavour of how low capacity is it is worth quoting at length from that report:

Currently, regions have virtually no financial resources. The requisite physical plant and equipment for effective functioning of regional government is also lacking. Some examples illustrate the magnitude of the problem: in one large region, 4 - 6 executive committee members share a small office; one large region visited had one vehicle, while another had none and had to rely on the regional political movement to loan them transport for a visit to district government; regional offices visited have no more than 2-3 typewriters (Amharic), in some cases borrowed; there are no photocopy machines, duplicators or any of the other technologies of modern government characteristic of even LDCs. Pens, pencils, and most importantly carbon paper appear to be the tools of government at the sub-national level in Ethiopia. To further illustrate the problem, many of the above conditions were in a region that administers an area of over 13 million people ...Central government departments at regional and district level are only marginally better off.

The situation is much worse at the district level, where district

councils' financial capacity is non-existent. District offices are little more than hovels. The contents of one district administration office included one table, two benches, two chairs, one stapler, one pencil, one pen, one pad of paper and a packet of carbon paper. The room was without windows and had a dirt floor. This particular district serves 60,000 people. A region can contain as many as 80 districts, and there are no effective communication links between district and regional authorities. (Haregot et al, cited in Picard, 1993, Appendix 3:9-10).

That the devolved units do not have sufficient capacity is one of the starkest problems facing the devolution process in Ethiopia. In many regions in 1993 there was no government apparatus in place except for military patrols of regional borders. The low-level of resources and of technology and the poor infrastructure of communications poses considerable problems for the process of self-government. While it is true that the structure of local government has been put in place remarkably quickly this is more testimony to the degree to which the reorganisation of local government was grafted onto existing structures and how crucial it is to the EPRDF's legitimacy that it should be able to offer the trappings of political power, than to the ability of these local governments to govern. In contrast to the absence of administrative resources, the structures of political power were all up and running relatively quickly. By 1993 all 11 regional government structures were in place and functioning. All regions, with the exception of Dire Dawa, had regional councils, regional executive committees headed by a regional president, and a set of regional bureaus. It is indicative of how valued political posts are that the number of regional

bureaus are often more than the 19 allowed for in the 1991 Proclamation. The larger regions have established zonal offices which replicate the structure of regional government. During the Transitional Period communication with the centre was via the Regionalisation Department of the Prime Ministers Office, sectoral ministries and the central Ministry of Finance and the Ministry of Planning and Economic Development. Regional sectoral bureaus are supposed to operate independently from central government sectoral ministries, which play a technical assistance role towards the regional bureaus. In practice, particularly in the smaller regions, the central sectoral ministries "exercise great intellectual leadership" (Mishra, 1995:39).

Compounding the problem is the basis on which the devolved units have been formed. Since regional boundaries have been determined largely by ethnic or linguistic, rather than economic or administrative criteria, no attempt has been made to ensure a balance of resources between the regions. This has caused an imbalance, not only in terms of the ability of some of the regions to implement development strategies, but also in terms of the relative weight of regions vis a vis one another and vis a vis central government. It is indicative of this that even in some of the better-developed areas capital budgets are not being spent; even within Central Government, capital budgets are not being spent. This is a problem which predates the transition period (*John Cummings, USAID*). A 1993 report on regionalisation concluded that regional capacity was very low and that it would be risky to implement decentralisation of powers and personnel until there were sufficient numbers of staff capable of efficiently co-ordinating and supervising policies at the national level (Hansson, 1993).

*Problems with implementing regionalisation: the allocation of revenues.*

The TGE have paid considerable attention to resolving the problem of developing regional capacity. They have sought substantial sums of external aid to enable this problem to be addressed. In the government's view putting the machinery of local government in place is a prerequisite for using that machinery to implement development strategies. However the secondary problem of how to distribute revenues so that a meaningful degree of self-government may be implemented has not been given the same attention. It may be that the government has relegated this issue because the revenue imbalance means that central government can maintain control over regions through economic levers.

Table 4 sets out the allocation of revenue sources reserved to the Federal State, the Member States and joint revenues under the 1992 Proclamation 33 and under the Constitution. It is worth noting again the similarities in these two pieces of legislation. The revisions between the earlier and later legislation are very minor. In the later legislation forest royalty was allocated to the state, whereas previously it had been a joint revenue; the tax on the earnings of farmers incorporated into an organisation were excluded from regional revenues under the Proclamation, but form part of state revenues under the constitution.

Revenues have been reserved to the Federal government and to Member States in a logical fashion. Revenues which derive from or are generated by central activities fall to the central state; those of regional activities to the regions. Nevertheless, because of the nature of the Ethiopian tax and revenue base, this reserves the overwhelming part of revenues to central government. What is more questionable is the reserving of revenues from large-scale mining, petroleum and gas operations, and taxes on

corporation profit and on dividends as joint revenues. Allowing these exclusively to the state territories in which they are located would have provided member states with a potentially growing revenue base and therefore with a degree of independence from central government which may have given content to the form of self-determination within a federal system. As the revenue allocation stands, none of the regions, with the exception of Addis Ababa, have sufficient internally generated revenue to cover their current expenditure, let alone to cover their capital budgets. Lack of a fiscal database, and lack of clarity about eventual ownership of state enterprises, makes it unclear what the size of revenues accruing to the regions will be (IBRD, 1994:43). What is clear is that they will all need substantial subsidies from central government. Since central government has overwhelming control of budgetary resources it can use the transfer mechanism to ensure that regional government policy does not diverge from priorities set by central government. The World Bank is involved in discussions with the TGE on ways of building into the transfer mechanism penalties and rewards for (non) co-operation with centrally determined strategies. In their 1994 report the IBRD noted that, via subsidies to the regions, "Central Government not only possesses the means to determine macro-economic direction (via borrowing restrictions) but, informally, will have the bargaining power to control the composition of expenditure as well" (IBRD, 1994:43). On paper, for example, the regions are not supposed to alter tax rates. If they did central government would not have the political power to prevent them from doing so, but it can exercise economic incentives to dissuade them from doing so. (*Fies Omar, IBRD*). The political fiction of autonomy would remain intact but economic levers would ensure that devolution of power is in fact de-concentration

of power.

Revenue sharing, as set out in the 1992 Proclamation 33/1992, has four objectives. These are: to enable both tiers of government to discharge their duties; to assist the regional governments in the development of their regions; to balance out levels of development and economic growth between regions; and to encourage activities that are of common interest to the regions.

Subsidies will be provided to regional government by central government only in order to fulfill the following five objectives: to promote social services and economic development of the regional governments; to accelerate the development of marginal regions; to reduce the gap in per capita income between regions; to support projects in regions susceptible to external shocks and projects that provide common benefit to neighbouring regions; to encourage foreign currency earning projects and other projects of national interest. In order to collect their subsidy, regions have to submit their subsidy requests to the Ministry of Finance and the Ministry of Planning and Economic Development (MOPED) together with their revenue collection forecast and the total expenditure required to meet the objectives set out above. The amount of subsidy granted is proportional to the contribution made from the revenue collected by the regions.

Central government determines the rate of tax on taxes which form part of joint revenues. In addition central government agreements and legislation on tax exemptions are enforceable on regional tax legislation. Revenue collection of central and joint taxes is carried out by central government administrators, regional governments collect their own revenues. Central government determines the amount that each region may borrow from the National Bank. Foreign currency will be held

and administered by central government and requests for foreign currency are to be made to the Ministry of Planning and Economic Development. The Council of Ministers will decide the amount of foreign currency authorised for each region. Until economic levers are institutionalised regional governments may seek to increase domestic revenues by means which undermine centrally determined priorities. Addis Ababa's Urban Land Lease Proclamation had a detrimental impact on investment and other private sector initiatives. In the event Addis Ababa was forced by central government, itself under pressure from donors, to withdraw the original proclamation. Similarly, some regions have introduced tariffs on inter-regional trade. This maybe a useful mechanism for income generation but it is hardly conducive to building an integrated market in Ethiopia. Having said that, the prospect of regions undermining central government policy in these ways is rather unlikely given that regional governments are dependent on revenue transfers from central government. So long as this remains the case then central government will be able to exert political control, using economic levers, over regional government policies. Should any of the regions move into surplus by fully utilising all its potential revenues then, in theory, central control would be loosened and only then could a region embark on strategies which conflict with centrally determined priorities. In short, there is a certain contradiction between the constitutional power that the regions have to decide on social and economic policy and the fact that tax revenue is mostly generated from the centre. The regions are very dependent on central budgetary allocations to implement their policies. As long as there is a unitary system, where both national and regional legislative councils are more or less controlled by one-party, as they are now, this system will probably work. If at some

stage there is a political change in the regions then there may be coalitions between the regions against the centre (*Henio Marios, EC; Tom Gibson, IMF*). It would seem that the smooth functioning of regionalisation depends on central government control via both economic levers and political control exerted through the EPRDF's constituent parties.

#### Political dimensions of regional policy

Regionalisation reserves very limited political rights to member states and economic and political control to central government. For the EPRDF self-government is merely a question of control over language and representation of history and culture. The EPRDF are not, in a phrase which they use to decry the opposition, "narrow nationalists". Their hope is that by removing the most obvious signifiers of central dominance nationalist leaders who are seeking a more radical redefinition of centre-periphery relations, full independence for example, in particular the OLF, will find the base of their support undercut. In other words the EPRDF's policy of national self-determination, like Lenin's and Stalin's nationalities policy, relies on the idea that if "a people" have a right they will be less inclined to exercise that right. The formidable legal, economic and political barriers to self-determination which emerge from the previous discussions on legislation, capacity and revenue are indicative of how limited the right to self-determination is in practice.

There are two aspects to regional policy: the decentralisation of power and the ethnic basis of decentralisation. Decentralisation of power is not a new phenomenon in Ethiopian politics. The devolution of power has in some sense regulated the status quo. As I argued in chapter five the reach of the central state has never effectively

extended beyond the Ethiopian highlands. Under Haile-Selassie an underdeveloped infrastructure and the strength of local political institutions combined to make the exercise of Central Government authority a compromise with local political realities. This was less true under the Derg but the Derg's apparent centralisation depended on the viability and strength of local political institutions which predated and interlocked with its own apparatus of local government. The ethnic basis of decentralisation also, to some degree, institutionalises existing realities, at least in the northern highlands. What is different about the EPRDF's local government policy is its commitment to self-determination and its commitment to facilitating the expression of and even generating politicised sub-national identities.

### *Self-determination*

In practice, what does the right to self-determination for regional and sub-regional units mean? Would the FDRE allow a region to secede? Self-determination as set out in the Charter and in the Constitution means self-determination of culture, history, language and territory. The EPRDF has great faith in the integrating powers of the market and believes that it will counteract any tendencies towards separatism which federalism might otherwise have provoked. Meles Zenawi, in an interview with *The Courier*, argued that the regions will not secede since, "when you start talking about development, you start talking about a wider economy, a bigger market and you cannot have bigger markets by dividing up states, That, we believe, even the peasant will understand" (Meles Zenawi, 1994:26). Dawit Yohannes has argued that the break-up of Ethiopia will be contained within a larger economic federation of the Horn. In practice self-determination apparently means that a very limited sphere of political rights - language, self-representation of culture and history - fall to regional

government to define and exercise. More substantial political issues and matters of economic policy, such as development strategies, fall within the remit of central government.

In the near future secession is unlikely to be an option for most of the regions. None of the regions currently have the financial, political or military resources to enable them to secede. There are three regions which do have substantial resources, Oromo, Amhara and SEPAR. Between them these regions occupy 80 per cent of Ethiopia's territory and have some 46 million of its population of 53 million. However they also all have substantial revenue deficits and therefore will be dependent on central government for some time. Oromia encircles Addis Ababa and Harar and the OLF are claiming Addis Ababa as the capital of Oromia. The OLF claim that they have attempted to follow the procedure for secession set out in the constitution, but that they have been blocked from doing so by central government. This may be true but it hardly matters. It is unlikely that the OLF could mobilise the population to vote "yes" in a referendum on secession. Their withdrawal from the election process and their failure to prevent either voter registration or to enforce their preferred option of an election boycott is indicative of the degree to which the OPDO has usurped whatever claims the OLF had to be a representative body.

One of the objectives of nationalities policy is to defuse nationalist tensions. It is therefore a paradox that one effect of the policy has been to politicise ethnic identity. In the election campaign, with the exception of the Ethiopian National Democratic Party and some independents, candidates ran on ethnic identity. To some extent ethnic identities which were necessarily very fragmented have become more coherent. On the other hand, the failure of the OLF to undermine the mandate of the

TGE when they let the coalition in 1992 (prior to the regional elections) stems from their failure to capitalise on Oromo identity. The Oromo are a very diverse "nation" which includes highland Christian agriculturalists and lowland Muslim pastoralists and with different histories of involvement with the state. The OLF would argue that the history of Amhara domination forged a common identity, but it was not one that they were able to capitalise on (*Terry Lyons, Donor Election Unit*) Whether the OPDO has been returned to power in Oromia because it represents the nationalist aspirations of the electorate or because it was the EPRDF candidate is a difficult issue to determine empirically.

It seems that the EPRDF's reading of political opposition under the Derg was that its basic source was nationalist and that the aspirations of these groups could not be put aside at liberation. Given the country's poverty this was the only thing the EPRDF could deliver on victory (*Andreas Eshete, Inter-Africa Group*). However it is apparently their intention to limit the impact of nationalism to a restricted sphere of what are essentially cultural issues.

Increasing the capacity of the local state means to increase its capacity to implement directives and to collect taxes. If the capacity of regional governments to govern is strengthened, but economic development lags behind it if, in other words, regionalisation succeeds at the political level before it succeeds at the economic level then it will mean more intensive exploitation of the farmer and a more effective response to tackling any resistance that the farmer might offer to such predations. The logic of regionalisation is based on the TPLF's experience in civil war. The TPLF mobilised farmers to implement development programmes and to maintain them. It is on the basis of this experience that they argue that local government

means government by the people and involving people in development will lead to more and better development. The problem is with applying the TPLF's experience in civil war to peacetime. What is acceptable to populations under war conditions is not necessarily so in peacetime.

#### Economic goals of regional autonomy

Implicit in the regional policy are two economic goals. One is that development strategies will be more appropriate and therefore more effective because they will be based on local decision making. The second is that a restructured Ethiopia may lay the basis for a restructuring of the entire region into an economic community of provincial states. Some type of economic union of the Horn has been raised by both government and donors as a viable strategy for the economic regeneration of the region. Given the history of conflict within the region it is an unlikely outcome. The first anticipated outcome, that development strategies may be more effective, may prove to be true. The TPLF had considerable success in Tigre during the Civil War in implementing local development , introducing new production measures and mobilising the population to develop local infrastructure. The TPLF have apparently assumed that these successes were based on the active participation of local communities in decision-making and on a sense of “ownership” of the political process which was generated by the nature of the TPLF’s leadership. Following on from these assumptions is the conviction that the conditions of Tigre during the war can be replicated in other provinces in peacetime. This would mean that the regions would become one of a number of tiers of local government which would eventually devolve power to the village level. According to this strategy, villages would be

consulted on development decisions and would participate directly in implementing and maintaining micro-level development programmes.

#### International dimensions of regional autonomy

The Transitional Government's regional policy clearly has domestic sources. Most obviously in the history of the TPLF fighting for the autonomy of Tigre but also in both Haile Selassie's and the Derg's attempts to extend the writ of central government by compromising with regional political realities. These domestic sources are important but the regional policy also has international sources. These international sources are primarily derived from the assertion of liberal ideals of nationalist-democracy and very illiberal struggles between nationalists for state power in contested territories that have accompanied the end of the Cold War. The shift in ideology at the international level impacts in a very concrete way on the ability of nationalists to implement nationalist strategies. In Ethiopia, for instance, the main financial supporters of the government, that is the international donor organisations, are strongly in favour of the principal of federal government based on ethnically determined regions. The option of a federated Ethiopian state was flagged in the USA government prior to the EPRDF's seizure of power in 1991. The costs of implementing the regional policy are considerable and the TGE's expectation is that these costs will be met by international donors.

International donors do have concerns about the implications of regionalisation. These are mainly over three aspects: the costs of capacity building; the blocks which regionalisation may place on national economic integration; and the opportunities for regional state-building it offers (not so much shrinking the state as duplicating it).

These concerns however are overridden by more potent convictions. Firstly that regionalisation will undermine the conditions for national conflict and secondly that nationalism is an expression of a fundamental right of people to live in culturally and linguistically homogenous territories and to be governed by their co-nationals. The unprecedented fluidity of state structures in a post-Cold War world is seen as a unique opportunity to implement one of the central premises of liberal thought: the right to national self-determination. This right has been sacrificed to the pragmatic concerns of state stability and international order but, in the wake of the Cold War need no longer be, in certain instances.

The EPRDF also has a vision, shared with many of its international backers, that its "great experiment" provides an answer to the instability and the weak legitimacy of the African state. The costs of this "enormous gamble" are being readily met by western donors. The ideological premises which it is based on are derived from liberal-nationalist conceptions of what states should be: the embodiment of the political will of nations. The evident falsity of nationalism as the basis of state power does not mean that regionalisation cannot provide solutions to the problems of centre-periphery relations in Ethiopia. One of the problems which has been characteristic of political power in Ethiopia has been the chronic insecurity of the provincial ruling class and the lack of rule-making and rule-playing which compounded the fragility of the provincial ruling class. Indeed a useful comparison can be made with the Soviet Republics in Central Asia where Soviet nationalities policy, based as it was on a high degree of horizontal integration, provided a measure of real political and economic power for local leaders. The legitimacy which the republics elites accorded the Soviet Union did much to contribute to its stability.

## Conclusion

How different then is the EPRDF's treatment of the national question from that of previous regimes? The key difference is in the EPRDF's rejection of a core Ethiopian identity and its acceptance of Eritrean independence. Independence for Eritrea was a precondition of the TPLF's survival. The success of the TPLF was in large part due to the support it received from the EPLF. In any case when the TPLF took power in 1991 it was not in a position to pursue a military solution to the problem of Eritrea's incorporation. The importance of this should not be underestimated. The Derg's inability to find a political solution to Eritrea and its intransigence over this issue put Ethiopia on a permanent war footing. In addition to the high level of GDP which was consumed by military spending, the forced conscription of peasants into the army was the main grievance of the rural population against the Derg. In other respects however, in particular the degree to which regionalisation is a rhetorical device for managing sub-national discontents, the EPRDF's strategy does not appear to be substantially different to the Derg's.

The EPRDF has put in place a formally democratic structure based on member states having the right of self-determination up to and including secession. In doing so it imposed a model of political organisation on Ethiopia which was derived in part from the specific experience of Tigre and Tigre's historical and contemporary relationship with the central state, in part from Soviet nationalities policy. Its ability to do so derives from its military victory over the Derg's army and not from the democratic institutions which it has created since 1991. The EPRDF have justified the federal structure on the basis that it will undermine the ability of nationalists to mobilise populations around issues of representation and resource distribution. This

in turn will create the conditions for peace and stability, which are viewed as preconditions for development. Within Ethiopia the merits of regionalisation have been hotly contested. The international donor agencies, while expressing some concerns about the blocks that it may raise to integrated development, have shown a keen interest in regionalisation and have provided substantial funds to build regional capacity.

*Table two: a comparison of regional policy under the Transitional Government as set out in Proclamation 7 and in the Constitution*

	By Proclamation 7	By Constitution
Self-government	means "a national or regional entity vested with legislative, executive and judicial powers"(Ch1,s2,ss3	right to self-determination including secession, right to establish institutions of government and to equitable representation in regional and national governments (Art 39 (1)(2)
nation or nationality	means "a people living in the same geographical area and having a common language and a common psychological make up of (sic) identity "(Ch1,s2,ss7)	"a group of people who have or share a large measure of a common culture, or similar customs, mutual intelligibility of language, belief in a common or related identities, and who predominately inhabit an identifiable, contiguous territory(Art 39 (5))
Regions/Member states	Tigrai,Afar,Amhara,Oromo,Somali,6,7,8, 9,10,11,12,Harer,Addis Ababa	Tigrai, Afar, Amhara, Oromia,Somali, Benshangul/Gumaz,SEPAR,Gambela, Harari.  Nationalities within member states can form their own state, subject to the constitutional procedures.

<p>Powers reserved to Central Government</p>	<p>Defence Foreign Affairs Economic Policy Citizenship State of Emergency Deployment of army Printing currency Major developments Major communications</p>	<p>Policies on overall economic and social development National standards on health, education, science, technology, culture Financial, monetary and investment policies Natural resources National defence National bank, print currency, regulate State borrowing Foreign policy Major communications Taxes and duties Inter-state and foreign commerce Deployment of army to member states, at their request States of emergency Nationality , citizenship &amp; immigration</p>
<p>Accountability</p>	<p>dual</p>	
<p>Powers reserved exclusively to regional government (i.e.that do not have to be in congruence with CG.)_</p>	<p>Domestic borrowing Levy taxes regional budgets Regional judicial matters Own regional govt. property Elect regional E.C. Determine working language of government</p>	<p>Enact &amp; execute constitutions &amp; other laws Policies on economic and social development Levy taxes Police</p>
<p>Right to secession</p>		<p>Unconditional. Requires 2/3 maj. of legislative council, majority in a referendum, the latter to be held within 3 years by Federal Govt.</p>

*Table three: revenues as set out in the Constitution*

Joint Revenues	Central Revenues	Regional Revenues
	Exports and Imports	
	Income Tax of employees of international organisations	income tax of state and private ents. employees, of private farmers and farmers who are incorporated
Income ,profit, sales tax on jointly owned enterprises Taxes on Corporation profit and on shareholders dividends	Income, profit, sales tax on govt. enterprises	profit and sales tax on merchants income, profit and sales taxes on govt. enterprises. located within the state
	National lotteries	
	Air, rail, water, sea transport services	water transport fees within state
	Rents & tax on rents of Federal govt. houses & properties	Tax on incomes from private properties within the state and on rents on state-owned houses
	Federal license fees	state license and service fees
	Tax and income of govt. monopolies	
royalties and taxes on incomes from large-scale mining, petroleum, and gas operations,		income from mining operations, royalty fees and land rent
		royalty fees for use of forest resources
	government stamp duty	

## Chapter Seven

### STATE CONTINUITY ACROSS THREE REGIMES

In this chapter I develop a theme which has been implicit in this thesis, that of state continuity. I have argued that in the period from 1974, and indeed in earlier periods, there has been an underlying continuity in the social formation which reflects the persistence of subsistence agricultural production and the importance of trade as a mechanism for extracting surplus and supporting state structures. This chapter reviews the evidence of state continuity in three areas: state penetration, state revenues and regime legitimacy. Each of these areas demonstrates the pre-capitalist character of the social formation. State penetration is limited to restricted areas, essentially urban centres which exist more or less independently of one another. The relationship between state structures in these urban centres and those of the central state changes in response to their relative political capacity. When the central state is relatively strong, usually as a result of the resources it has access to within the international system, the other sites of power are correspondingly weaker. Nonetheless, these structures of power are not so much a fragmentation of central power as a repetition of power, so that it is more useful to conceive of power in Ethiopia as being multi-centred rather than as a relationship between centre and periphery. However, even though power may be said to be multi-centred and to that extent to have a greater degree of political penetration than a simple centre-periphery conception of state power would allow, even within the regional sites of power, political penetration is still largely restricted to urban centres. This in turn impacts on the ability of regimes to maintain state structures. Since regimes cannot penetrate society to a sufficient depth to capture domestic resources they rely on indirect taxes

and international finance to support the state. Finally, contenders for state power unseat incumbent regimes and defend their own claims to the right to rule on the basis of military victory. Constitutional sources of legitimacy provide an appearance of stability and consent which is belied by the manner in which regime change occurs.

### State penetration

Ethiopia is generally viewed as exceptional in sub-Saharan Africa for the degree to which the state has the capacity to enforce its decisions on the larger part of its population, to collect taxes, to guarantee its borders, and, with the exception of Eritrea, to have control of security. This perception of a relatively high degree of state capacity means that neither the 1974 coup, nor the 1991 overthrow of the Derg by rebel forces were anticipated by onlookers. I have suggested in this thesis that state capacity at the provincial level has been confused with state capacity at the national level and that the reach of the central state is in fact restricted to urban centres.

In chapters five and six I discussed the different stances of the Derg and the TGE to managing intra-state conflict caused by the multi-centred character of state power. These different stances, which in any case share some common ground, are indicative of the fact that both regimes necessarily exist within the same pattern of state power. The details of how the two regimes, and indeed Haile Selassie's regime sought to compromise with the realities of local power are discussed in chapters five and six, and I do not want to repeat them here. It is sufficient to say that each of these successive regimes, despite their different stances, accepted the lack of integration

of the territory by setting up local government structures along what were variously called provincial, regional, or national lines. Structures of local government are not in themselves indicative of a lack of capacity or reach at central state level. However in the Ethiopian case the regional divisions represent much more than simply an attempt to create an hierarchy of government which would make the process of administering government control less cumbersome. The structure of the economy has frustrated attempts by central powers to integrate the regions into a coherent pattern of national government. The independence of the peasantry, and the character of agricultural production, perpetuates the isolation of rural society and concentrates state resources on a few urban centres. In 1976 for example, and the situation has hardly changed since, over three-quarters of communication services, more than one-half of power capacity and over one-third of all-weather roads were concentrated in or around Addis Ababa and Asmara (Wubneh, 1988:140). While the success of the Derg in organising Peasant Associations (PA) has been cited as indicative of a high degree of state penetration the extent to which Peasant Associations have merged with older, locally produced institutions needs to be examined. A lack of research about the role of Peasant Associations or the extent of urban - rural interaction makes any bold claim impossible to sustain. However it does seem likely that the network of Peasant Associations which were formed after 1974 could not have been successfully created in such a short period of time without being strongly embedded in local structures.

## State revenues

The ability of the state to amass resources in order to sustain and expand state structures is obviously critical for state survival. In Ethiopia the state cannot penetrate society in ways which would allow it to use domestic revenues. It is indicative of the multi-centred nature of state power that domestic revenues accruing to the state are almost entirely collected from urban populations and that the most important sources are indirect taxes (see chapter two, above). This limited tax base does not generate sufficient resources for the government to maintain state structures. Three other sources of revenue compensate for these limits on state capacity. These are import-export taxes, international grants and international loans.

Tax revenue accounted for between one-half and three-quarters of all revenues in the period between 1981/82 and 1992/93. Tax revenue fell to a low of one half of all revenues in 1988/89 gradually recovering until 1992 when it fell again to slightly more than one-half. Sales and excise taxes on domestic transactions together with import and export taxes made up between one-third and nearly one-half of all revenues throughout this period. By contrast, agricultural income tax and rural land tax together never exceeded six per cent, falling to four per cent in 1981/82 and staying at that level until fiscal 1987 when it fell again to two per cent a position which it held in 1992/93, having fallen to less than one per cent in 1991. In the same decade or so, external grants, excluding emergency aid, steadily rose from five per cent to fifteen per cent between 1981 and 1987, falling to an average of about six per cent in the four year period 1988 - 1991 and rising to twelve per cent in 1992. The deficit of expenditure over income in this period was an average of slightly more than twenty-five per cent. This level of deficit generated a correspondingly high level

of debt and debt servicing. Between 1984 and 1992 the debt servicing ratio was between one-quarter and four-fifths rising steadily from a low of twenty-five per cent in 1984 to a high of ninety per cent in 1991 and falling to seventy per cent in 1992. The ratio of external debt to GDP in the same period rose from a low of one-third in 1984 to exceed 125 per cent in 1992, and staying at around fifty per cent in the intervening period.

### Regime legitimacy

Regime legitimacy is an important concept in understanding how governments make and defend their claim to state power. It is in this limited sense that I use the concept here. I do not mean to suggest legitimacy in the sense, following Weber, of the ways in which governments' secure the consent of the governed. Within that concept of legitimacy is contained a more or less explicit assumption that governments cannot rule without the consent of the ruled. I take that to be a dubious assertion which goes against the historical record. It is more plausible to argue that legitimacy needs to be secured from dominant classes. In any event, what I am concerned with here is a much more limited idea of legitimacy which simply asks how does a regime make and defend a claim to state power. In Ethiopia legitimacy in this sense has had two dimensions: one internal, and one external. Internally the right to rule has been predicated on the military defeat of contenders to state power. However regimes also seek to legitimate their rule internationally and in that context military conquest is no longer seen as a valid basis on which to claim sovereignty. Successive regimes have also therefore sought to manipulate symbols of statehood to make a claim in the international system to having a right to rule. In particular the markers of modern

government, a constitution, parliament and elections have been used by all three regimes in the modern period to validate their claims to being the legitimate bearers of state power. In the discussion which follows I discuss the ways in which military capacity has been critical to establishing sovereignty and I consider in some detail the way in which the Derg and the EPRDF came to control state power.

### *Military conquest*

In chapter five I presented a historical overview of the consolidation of central power following the Zamana Masafent (1769 - 1855). In that account I noted the generally accepted view that Tewodros' claim to power rested on his defeat of rival forces. His successor, Kassa of Tigre, who was crowned Emperor Yohannes in 1872, also defended his claim to the throne on the basis of his defeat of rival powers. Kassa had secured the support of the British in 1868 by assisting the Napier Expedition against Tewodros. This support gave Kassa access to guns, ammunition and military supplies which enabled his 12,000 strong army to defeat Takle Giorgis' army of 60,000. Both Tewodros and Yohannes were defeated by external powers: Tewodros by the British, Yohannes by the Sudanese Mahdists. Menelik's consolidation of Shoa power as a result of his military excursions in the south and the extraction of tribute which it allowed gave him the resources to make a successful claim to being King of Kings following Yohannes defeat. Haile Selassie, in turn, had to defeat rival claims to power and rebellious populations in Shoa, Ogaden and the north. His return to power after the Italian occupation was secured in part by British military forces, in part by the political manipulation of rival contenders to control of the province.

There is nothing exceptional in pre-capitalist formations about establishing claims to sovereignty through conquest. Pre-capitalist social formations are not capable of

the type of penetration of society by the state which leads to the creation of rule-based mechanisms for extracting tribute and taxation, nor do they tend to generate institutional means for deposing or instating rulers. In the absence of such mechanisms the state tends to use violence to extract tribute and to sustain or extend its rights over populations living within its territory. Likewise, contenders for power may need political skills to press their claims, but these will come to nothing without military victory. Thus the coercive character of state interaction with society is paradoxically a sign of state weakness.

That this mode of claiming sovereignty has continued into the contemporary period is simply indicative of the pre-capitalist character of the Ethiopian state. Until 1942 the Ethiopian military was recreated each time a threat to security arose, or there was the possibility of extending claims to rule over new territories. These were ad hoc forces of armed peasants led by local rulers. If the leader were killed in battle it was not uncommon for the soldiers to desert or even to switch sides. The Ethiopian army's inability to resist the Italian invasion in 1935 can partly be attributed to the feebleness of resistance which could be provided by this manner of warfare. During the Italian occupation elements of the aristocracy, those who later became known as "The Patriots", undertook a campaign of guerilla warfare. Partly to break the political authority of the Patriots, partly in response to the failure of the 1935 resistance and, perhaps, partly in recognition of a standing army as a symbol of national identity and sovereignty, when Haile Selassie returned to Ethiopia in 1942 he reorganised the armed forces: creating a permanent, salaried and professional body. The newly organised forces were trained by British, American, Israeli and Swedish advisors. This policy of multiple training was pursued in order to prevent internal cohesion

within the armed forces. Further divisions emanated from the competition between the Harar Military Academy (f.1958) and the Holetta Military School. After the abortive coup in 1960 the Territorial Army was organised as a counterweight to the Army and the Imperial Guard.

In 1960 when Haile Selassie was on a state visit in Brazil, a group within the Imperial Bodyguard led an attempted coup which, although it failed, illustrates again the importance of the military in sustaining claims to rule. Donald Levine has argued that the Imperial Bodyguard, as a consequence of its privileged position within the armed forces, "began to feel increasingly a sense of political mission" (Levine, 1968:31) "They saw themselves", he continues, "as inaugurating a revolutionary tradition, much like the Russian officers of December 1825, with whom they have often, and aptly, been compared" (Levine, 1968, 31). The coup leaders insisted that they were not seeking a long-term involvement in government, although one of its first actions was to dissolve parliament. All the key members of the aristocracy in Addis Ababa were arrested and the Crown Prince pledged his support, although this was probably given under duress. They left at large the Commander of the Airforce and the Commander of the Territorial Army, and they did not arrest the Patriarch. These were critical mistakes. The support of the Patriarch for the loyalists contributed to public hostility against the rebels, whilst the tactics of the Airforce and Territorial Army Commanders isolated the rebels. They were overcome within the week. Girmame Neway shot himself, Mengistu Neway was tried, found guilty of treason and hanged in public. After the attempted coup Haile Selassie restructured the armed forces, dismantling the Imperial Bodyguard, and increased the pay of all divisions. Levine concluded in his account of the coup that "The stability of Haile

Selassie's regime has been based on the overarching authority of a single man. When he goes, a condition of relative instability is likely to follow. Into that vacuum, ready or not, the military will be drawn" (Levine, 1968:32).

A period of instability did indeed emerge but it preceded Haile Selassie's departure. The cycle of protests in 1974 did not only involve the military, they also involved most sections of urban society. This is in part because the separation of the military from civilian society was far from complete. In an account of the structure of the Ethiopian military Baker (1970) commented on the substantial involvement of the military in civil society and concluded, presciently, that there was "...the possibility that the military will emerge, not as instrument or occasional player but as the arbiter of Ethiopia's political future (1970:338) Both soldiers and civilians were vulnerable to the effects of inflation and the erosion of urban living conditions. In mid-January 1974, the soldiers at a small garrison in Neghelle, Southern Sidamo, mutinied over rates of pay, poor living conditions and the failure of the water supply system in the barracks of the 4th Infantry Brigade. When the officers refused the soldiers request to drink from the officer's well they arrested their officers and the Army Commander who had been sent by the Emperor to negotiate with them. The Emperor agreed to redress their grievances but the unrest had spread. In February at Debre Zeit airforce base technicians and NCO s detained their officers and demanded higher pay and improved living conditions. The Emperor again conceded. Then units in Asmara, Eritrea rebelled, demanding higher pay, additional food allowances and troop rotation. Despite the serious nature of their insurgency, the government's response was conciliatory and pay awards were made. Aklilu Habte-Wold was forced to resign as Prime Minister, an unprecedented event in Ethiopian politics, and Endalkatchew

Makkonnen was appointed in his place on February 28. In March the army returned to barracks with a new consciousness of the political power they wielded.

It may have been this new awareness of their political power or civilian accusations in March that the military were parasitic on civilian struggles that shifted the armed forces perception of their role towards a more political stance. In any event in early March Mess Committees were organised by small, political groups in the Airforce, the Airborne Corps, the 29th Brigade of the Fourth Division and the Engineers and Signal Corps. Some sections of the armed forces, in particular the Second Division, the Police and Imperial Bodyguard were critical of the military for pressing extra-corporate demands (Ottaway, 1978: 47-49). In late April Colonel Alem Zewd, commander of the Airborne Corps, organised a Co-ordinating Committee of the Armed Forces, this was dissolved on April 29 and the National Security Commission was formed the next day. Endalkatchew used this committee and the Commission to suppress civilian strikes and to take action against the more radical military units. Alem Zewd's committee was reportedly split between conservative and radical factions. The committee which was formed on June 2 and came to be known as the Derg, may have been a break-away group from this first, pro-aristocratic committee. It consisted of elected delegates from each of the bases of the army, territorial army and airforce. All the delegates were junior officers.

Yohannis Abate argues that the military took power in 1974 with the encouragement of civilian groups and in response to the inability of the government to resolve the economic and political crisis. (Yohannis Abate, 1983:33). The unity of junior officers and enlisted men was short lived. Abate suggests that the divisions within the Derg can be traced to competition between two factions: graduates of the Holetta

Military School and graduates of service academies Army, Airforce, Navy and the Police - all of which were opened after 1955. These service academies recruited high school graduates who would be commissioned as Second Lieutenants after three years training. There was a commonality of interests among these officers who "were also held in high esteem by the civilian elite with whom they associated, and cherished similar political ideals such as the introduction of democratic institutions, self-determination for nationalities, a free press and economic reforms"(Yohannis Abate, 1983:34).The hostility between these two factions, Abate contends, transcended inter-service and inter-ethnic rivalry. Apart from rivalry for key positions within the PMAC, three key issues divided the two factions. These were: the Eritrean question, the election of a civilian government to replace the PMAC, and reorganisation of the PMAC, and redistribution of political power. Key representatives of the service academy faction were General Aman, Major Sisay, Lieutenants Bewkatu Kassa and Sileshi Beyene, and General Getachew Nadew. General Aman was executed on November 23, 1974 while allegedly resisting arrest. On the same night 57 notables, jailed in the September trawl of the aristocracy, were executed by firing squad, along with 2 members of the PMAC who supported Aman and 12 other military personnel. Teferi Banti was appointed chair to replace General Aman, Mengistu Haile Mariam and Atnafu Abate remained as joint vice-chair, The others were executed in July 1976 having been accused by Mengistu of counter-revolutionary activities. Major Kiros Alemayehu, a prominent member of the minority faction was arrested a few days later and Major Fisseha Tesfatsion, another council member, fled the country. The final defeat for this minority faction came on February 3, 1977 with the execution of General Teferei Bante and seven other

leaders of the minority faction.

The TPLF was formed with the support of the EPLF in 1975. The EPRP retreating to Tigray after the Red Terror in Addis Ababa were absorbed into the TPLF (Clapham, 1988:209). Between 1975 and 1978 the TPLF defeated the Tigre-based EDU and the EPRP. A period of consolidation followed and the TPLF's ability to secure the support of peasants was greatly enhanced by their role in organising famine relief. By 1987 the TPLF had control over the rural areas in Tigre and began to mobilise for a final assault against the Derg's forces. By the middle of 1988 they had control of many urban areas and by the beginning of 1989 the Derg had lost control of Tigray to the rebel forces. The TPLF began to move into Gondar but faced resistance from their own fighters who wanted to contain the war aims to control of Tigre. This issue was resolved in favour of the leadership's position by 1991 and on February 23 they launched "Operation Twedros". The march to Addis Ababa was swift and on May 28 the TPLF entered the city. The defeat of the Derg's armed forces was in the end accomplished with very little resistance. This victory forms the basis of the EPRDFs' claim to state power.

### *The structure of government*

Having secured control of the state apparatus through military conquest and defended that claim through violence, successive regimes have sought to create institutions which suggest a level of stability and control and at the same time give the regime an aura of legitimacy, in the sense of securing consent. That this framework of constitutional representative government is empty can be seen in three aspects. Firstly, political power continues to rest with a small group of decision-makers whose autonomy is not compromised by the legal framework. Secondly, there is no

scope within the political process to express opposition. Thirdly, regimes are not displaced through the political process but through military defeat.

A constitutional monarchy was first proclaimed in 1931. As Keller suggests this was intended to “give the illusion of democracy” (Keller, 1988:69). In addition to introducing new administrative, legal and financial institutions, it inaugurated a two tier parliament with a Chamber of Deputies and a Senate. Senators were appointed by the emperor and deputies were chosen by the nobility and local chiefs from their peers. A second constitution was promulgated in 1955 which also did little or nothing to curb Haile Selassie’s powers. Senators were still appointed by the Emperor but the Deputies were to be elected by universal adult suffrage. The first elections were held in 1957 and were then held every four years until 1973. Voter turnout was between 60 and 70 per cent of registered voters, and the ratio of registered voters grew from thirty to sixty per cent over the same period (Keller, 1988:88). That this framework was irrelevant as either a tool by which people could contribute to the political process or as an indicator of the coherence of the regime, is suggested by the fact that elections in 1973 still did not contain the discontent which erupted in 1974 and which led to the Derg taking power.

In 1984 the Workers Party of Ethiopia (WPE) was formed and charged with writing a new constitution which would inaugurate the Peoples Democratic Republic of Ethiopia. The draft constitution went through an extensive and presumably largely formulaic consultation exercise. It was approved by referendum in February 1987. Voter turn out was ninety-six per cent and eighty-one per cent endorsed the Constitution. The Constitution established a national assembly, the National Shengo, whose 835 members were nominated by cells of the WPE, mass organisations and

military units. These nominees were then elected by universal suffrage. Over four-fifths of constituencies had three candidates. Elections were held in 813 of 835 constituencies on April 14 1987 (Tiruneh, 1993:274) with a turnout of eighty-five per cent of registered voters. These exercises in political theatre were as irrelevant in determining the political process as those of the Haile Selassie regime had been. What they did achieve was to end the provisional status of the regime, which until 1987 was still the Provisional Military Administrative Council although the “transfer of power to civilian institutions based on popular election was very largely cosmetic. The same people remained in power, and guided the process by which they assumed the mantle of popular sovereignty”(Clapham, 1988;93). As with Haile Selassie’s regime, that the apparatus of constitutional government was irrelevant to an understanding of the substance of political life and determining the outcome of political conflict is clearly illustrated by the fact that the next regime also established power on the basis of military conquest.

Since 1991 the EPRDF have held a series of elections which have ostensibly demonstrated their commitment to democratic rule. In each of these elections in those areas where the EPRDF or its constituent People’s Democratic Organisations had established control before the elections, the electoral turnout was over ninety-five per cent and the yes vote for the EPRDF was also over ninety-five per cent. In most areas there were no opposition candidates and where there were opposition candidates they stood as individuals, not party members. The elections were internationally monitored and generally held to be free and fair. Yet it is hard to discern any substantive difference between these elections and the elections which were held in 1987 to the National Shengo. As with those elections, the end of this

series of elections saw the same people in power. Just as the founding of the National Shengo ended the Derg's provisional status, the 1995 elections ended the transitional status of the incumbent regime but in no other respect did it alter the character of the regime.

## Conclusion

In this chapter I have argued that regime change, while being accompanied by different political stances, has not been accompanied by change at the level of state action. Successive regimes have taken power on the basis of military victory. The absence of real political mechanisms to secure regime change suggests that those political institutions that have been established, ostensibly to allow popular participation in politics, including the election of governments, in fact serve another purpose. That purpose is to support the regime's claims to legitimacy at the international level. The persistence of conquest as the basis of sovereignty reflects the pre-capitalist character of the state. Other characteristics of state power which are suggestive of the presence of pre-capitalist social structures are to be found in the limited extent to which the state can penetrate beyond urban centres, and the multi-centred character of state power. This limited penetration has prevented the state from reproducing and maintaining state structures through access to domestic revenues which in turn has shaped the state's relationship to the international system. The ability of regimes to guarantee the state's territorial borders is another conventional marker of state capacity. In this aspect Ethiopia again displays its pre-capitalist character. Control over borders is continuously undermined by unregulated flows of goods, and of people. If the borders of Ethiopia are guaranteed in any sense

then it is for the most part only in as much as the international system recognises the state's rights over a fixed territory. Nor have successive regimes had anything approaching a monopoly of the means of violence. Of the three regimes discussed here, the Derg was of course most compromised by domestic insurgency in the shape of the civil war with Eritrea and Tigray. While the war with what was then Eritrea province certainly increased in intensity after 1974 it was still a problem confronting Haile Selassie's regime, as was an ongoing conflict of a much lower intensity in the Ogaden. Even for the current regime, which has resolved the conflicts with Eritrea and Tigray it still faces sporadic violence from para-military nationalist organisations. However, of the three regimes, the EPRDF have come closest to establishing a monopoly of the means of violence. They are nonetheless equally incapable of controlling their borders.

Migdal's account in Strong States and Weak Societies (1988) suggests that the social dislocation caused by the penetration of the world market in Latin America, Asia and Africa in the nineteenth century led to a process of social fragmentation in which states were no longer integrated with the societies which they ruled over. This forced states into compromises with local strongmen within which the politics of survival (of regimes) perpetuated a weak but stable state. Superficially, the account I offer in this thesis may seem similar to Migdal's. I too have identified regime continuity even where regime goals have been markedly discontinuous, a fragmented (or multi-centred state) and low levels of state capacity as suggested by such indicators as the degree of state penetration outside of urban centres, low levels of direct taxation, and the absence of political institutions for regime change and regime legitimacy. However the key difference lies in my analysis of why this situation has arisen.

Rather than attributing the fragmentation of society to external dislocations I have argued that economic structures and in particular the persistence of subsistence farming and the role of merchants in extracting surplus is crucial to an explanation of the character of state power. The similarities between Ethiopia and the rest of sub-Saharan Africa are striking, despite the absence of colonial power in Ethiopia. These similarities suggests that colonialism has not been as successful a harbinger of capitalism as either its apologists or critics have suggested. This is not to discount the level of violence and dislocation which people experienced at the hands of international and local ruling classes during imperialism, but simply to question the long-term impact of that violence on political and economic structures. Secondly, while I agree with Migdal that the central state makes alliances with local regimes, whether regionally, sub-nationally, or however else local sites of power are defined, the actors concerned are not loosely classified “strongmen” but dominant classes. It is in the interests of these dominant classes and the points at which their interests mesh with those of state actors on the one hand, and subaltern classes on the other (e.g. over land reform) that an explanation can be found for the perpetuation of weak states.

## Chapter Eight

### STATE, CLASS AND MERCHANT CAPITAL IN ETHIOPIA AND SUB-SAHARAN AFRICA

In African studies the problem for political analysis has not been one of “bringing the state back in” but rather of bringing society and in particular class structures under scrutiny. In this thesis I have analysed social structures and I have paid particular attention to class relations. I have shown that the state is embedded in society but not in the ways in which a theory derived from understanding the state in capitalist societies would anticipate. In terms of understanding the Ethiopian state the methodology utilised here has proved to be fruitful. In examining the mechanisms of surplus extraction I found that relations between merchants and the state which have been left unexplored in the literature provide a plausible explanation of regime actions since 1974. The importance of merchants to understanding state and society in Ethiopia has not to my knowledge been posited elsewhere. My contention is that this crucial class has been overlooked in previous analyses because the state’s external appearance has been taken for the underlying reality. In particular the Derg’s aspiration to establish a command economy and the impact of the first wave of legislation on what were widely acknowledged to be dominant classes (the nobility, landlords and foreign industrial capital) and the ferocity with which the regime pursued the war with Eritrea and the struggle for political ascendancy (the so-called Red Terror) suggested that a class of peasants faced a monolithic state. In fact, as this thesis shows, the Ethiopian state did not have the reach or capacity which that would imply. Furthermore, very little attention has been paid in the literature to the extensive informal economy and its relationship to state actions. The analysis offered

here shows that change in the underlying social structures neither preceded nor followed so-called revolutionary seizures of power in 1974 or 1991. The Derg regime was essentially restorationist in its overturning of the limited penetration of foreign capital which had taken place under Haile-Selassie's rule. Whilst the EPRDF has revolutionary potential in the sense of creating the pre-conditions for revolutionising the means of production, its rule so far has shown key continuities with the Derg regime, reinforcing the point that regime collapse should be differentiated from state collapse. The enduring nature of the state and of state structures in Ethiopia (such as the sub-national or regional division of power) has prevented the realisation of regime projects. The gap between rhetoric and reality is not only testament to the mendacity of politicians, or a marker of the revolutionary urge to make the world anew (and the failure to do so), it is also a reflection of the very real constraints which social structures place on voluntarism. With that in mind the Derg's claim to be socialist or the EPRDF's to be democratic can be quickly dealt with. The choice of these particular legitimating ideologies lies with the prevailing winds of the international system. Given the formalism of liberal-democracy the EPRDF's claims to be democratic can be taken marginally more seriously than the Derg's to be socialist. Taken in its broadest sense as a project of human emancipation the Derg clearly cannot lay claim to being a socialist regime. By the lesser measure of ruling over a command economy, the state simply did not have the resources, political or physical, to enable the Derg to exercise that level of control. The claim that the scale of political change in Ethiopia was unique in Africa is an unsubstantiated one. Harbeson's view (1990) that Ethiopian society was unique in being based on socio-economic equality, people power, and working class leadership is either naive or

simply wishful thinking. Even if the leadership had the political will to establish socialism Ethiopia does not have the social structures which would enable it to do so.

In chapters two and three of this thesis I examined the economic and social structures of the countryside and the towns in Ethiopia since 1974. What emerged from that analysis was the crucial role which merchants have played in linking the countryside with the towns and in appropriating surplus from the largest class of direct producers, the peasantry. I have shown, in other words, that traders have exercised the functions of a dominant class and that state actions have furthered merchant interests. I have argued that the Derg's actions can plausibly be viewed as creating the conditions under which merchants could extend their access to surplus to the mutual benefit of both the state and merchants. Indeed viewed in this context regime actions which otherwise seem idiosyncratic are shown to form part of a coherent strategy for the maintenance of state and ruling class domination, albeit a strategy inscribed in or determined by social and economic structures rather than one which was consciously developed in the manner of the PMAC's Ten Year Plan. In taking this stance I am disagreeing forcibly with those accounts which view the Derg's shift to the left as being an attempt to gain legitimacy through co-opting the support of the urban radical intelligentsia (see for example Dessaegn, 1987). Rather, the shift to the left which was expressed principally in land reform and nationalisation were strategies for forcing the withdrawal of foreign capital and extending opportunities for domestic merchant capital at the same time as securing the acquiescence of rural producers. This is a much more plausible account than those that make the Derg, who pursued its security goals with some ferocity, subservient to radical student

groups. In chapter four I considered the implications of the class base of state power for Ethiopia's international relations. In that chapter I showed how the merchant-state stamped its character on foreign policy and external economic relations. I suggested that the low-level of development of the productive forces which stemmed from the character of merchant capital (that is, from its lack of interest in developing the productive forces) together with low rates of capital accumulation forced the state to turn to external sources to finance the maintenance of state structures. It secured access to external financing through the manipulation of tensions within the international system. The Cold War served the Ethiopian state well, at least to the extent of giving it access to Great Power alliances and the resources which accompanied them. However these alliances were not without dangers, specifically the penetration of foreign industrial capital which accompanied American aid and which fatally weakened Haile Selassie's regime when Kagnev was closed down in 1974. In chapters five and six I discussed the regional policies of the Derg and the TGE and I showed that the perception of a strong central state which the literature attests to confuses the robustness of regional state structures which derive their strength from parochial sources with the central state. Regional structures should be read as largely independent of central state control rather than being outposts of the central state. The Derg and the TGE have employed different but, as I demonstrated not radically different, strategies for managing regional-centre relations. However, since local state structures suffer from the same weaknesses as the central state, that is access to a limited and falling level of capital accumulation, local state actors compete for control of central state power and the access to international resources which that provides. It is in this context, rather than as an expression of peasant

nationalist aspirations, that the conflicts between the Derg and nationalist and sub-national groups should be seen. In chapter seven I discussed the ways in which an enduring economic base of trade and subsistence agricultural production contributed to continuity in regime actions, despite radically different intentions.

In the rest of this chapter I consider the extent to which this analysis undermines the thesis of Ethiopian exceptionalism and the extent to which a mercantile state supporting a dominant merchant class might be a useful model for analysing other social formations in sub-Saharan Africa. At the very least the analysis offered here suggests that Ethiopia is not unique within sub-Saharan Africa and that it is more useful to consider Ethiopia and other African social formations as determined by existing material relations and means of production rather than by the experience of colonisation and de-colonisation.

### Ethiopian exceptionalism

In so far as it is possible to generalise about sub-Saharan Africa north of South Africa it is characterised by a rural economy based on subsistence agriculture in which largely self-sufficient agricultural communities are forced by extra-economic means (i.e. arising from outside the sphere of production), usually the imposition of taxes, quotas, etc., to part with all or part of their surplus product. In addition state engagement with or regulation of peasant production has had the effect of increasing profits for merchants. The state itself rests on revenues from the import-export trade with the former being for the most part luxury commodities and the latter being usually a single unprocessed crop (coffee, cotton, groundnuts) or mineral (copper, gold). Despite the broad similarities between Ethiopia and other African states which

such a general survey makes clear, Ethiopia is usually excluded from general surveys of sub-Saharan Africa (Chege, 1979:359) on four counts. The first and second counts are the survival of Ethiopian independence in the colonial period and related to that contemporary relations between post-colonial African states and the former colonial powers. A third criteria for exclusion is to be found in the supposedly feudal character of pre-revolutionary Ethiopia and the apparently extensive penetration of capitalism and capitalist relations of production which created its concomitant in an industrial working class which in concert with a petty-bourgeois strata brought Ethiopia to the brink of a socialist revolution. The uniqueness of that revolution is the fourth argument for Ethiopian exceptionalism. The appropriateness of treating Ethiopia as a subject apart from the general arena of African studies has been questioned in some recent studies (see for example, Crummey, 1990:119), but in general this conceptual separateness persists. However, against this picture of a sharp division between Ethiopia and the rest of the sub-continent, there are at least three counts on which Ethiopia can usefully be included in the general context of sub-Saharan Africa. The first is the argument put forward in this thesis for categorising the Ethiopian state as mercantile. While some accounts (e.g. Boone, 1994) have taken the dominance of merchant capital as being a specific outcome of colonial history, the analysis of Ethiopia offered here suggests that trade as the basis of state power has a longer history than the colonial period and that the absence of colonialism is not such an important marker of difference between Ethiopia and other sub-Saharan African states as it is usually taken to be. The importance of merchant capital to sub-Saharan Africa states has been commented on elsewhere and will be discussed below. The second is that the nationalist revolutions which contributed to ending

colonial rule in Africa may not be radically different to the 1974 coup, in terms of their class content and the state-class alliances which were established in their wake. The third is that the outcomes of state-class alliances have been remarkably similar in two respects, first the extent to which the state has sought to intervene in the economy (Dutkiewicz, 1987) and secondly the degree to which state policies have generated burgeoning informal or shadow economies. Whether or not Ethiopia is seen as broadly similar to or broadly different from the rest of the sub-continent depends in short on how the state and classes within these social formations are perceived.

#### State autonomy and the state in Africa

Social science discourse on the state in recent years has focussed on the question of state autonomy. The preoccupation with state autonomy is an attempt to resolve the difficult question of how to characterise the state's relationship to social forces when the state apparently acts against the interests of society and to further its own interests. State actions in different times and places suggests that in fact state personnel can act to further the interests of the state as opposed to the interests of dominant classes within society. It is also an attempt to theorise the relationship of 'overdeveloped' states to society. In particular, post-colonial states with strong connections with international capital, a 'soft' capacity to act domestically and ruling over societies with a weak bourgeoisie, and low levels of class stratification. The relationship of such states to their societies suggested to some political scientists that the state was floating above society, rootless, suspended and therefore independent and autonomous, domestically if not internationally (Alavi, 1972). Both neo-

Weberians and structural Marxists have argued that the state can possess autonomy from society. Society may be seen as being stratified by classes or social actors; regardless of how society is conceptualised, in these accounts the state, it is argued may act independently of societal interests. It may take action in domestic or foreign policy which furthers the interests of state personnel and is designed to enhance the capacity of state structures. Although both structural Marxists and neo- Weberians have employed the same language of state autonomy, they disagree on the sources of autonomy.

The neo-Weberian view, typified by Skocpol, argues that the state derives its autonomy from its access to resources on the one hand, and the interest of state personnel in furthering their own political or economic status, on the other. The state has the potential autonomy to pursue objectives independently of, and without furthering the interests of society, regardless of how the latter is delineated. The structural Marxist position, of which Poulantzas would be typical, argues that in advanced capitalist societies the state does not act directly to further the interests of the ruling class. That is, the advanced capitalist state is possessed of relative autonomy from the interests of dominant classes. The state's function is to mediate conflict between factions of capital on the one hand, and between capital and labour on the other. Its autonomy should not be confused with the state being aloof from the class struggle. The state exercises autonomy in order to maintain the unity of a social formation and the dominance of the ruling class. Therborn, also arguing from a structural Marxist position, offers a similar account: he argues that the state, "...is invested at one and the same time with the exercise of ruling class domination and the common tasks of society" (Therborn, 1978:48).

The relevance of this debate for understanding the state in Africa is that the relative autonomy of the state in capitalist societies rests on the separation of the political and economic spheres. Marxists, as I suggested in chapter one have not developed a fully-fledged account of the state in pre-capitalist societies. Nevertheless the debate on state autonomy under capitalism can shed light on the character of pre-capitalist states. In a Marxist account, it is because the ruling class in capitalism does not depend on extra-economic coercion for the appropriation of surplus that the state is freed from its direct involvement in the productive process and as such appears increasingly to be a force above and separate from, ruling over, society. This characteristic of the capitalist state is a function of the separation of the political and economic fields in the capitalist mode of production. It is also a function of the role of the state in a class-divided society. In other words, when Marxists' speak of the state's relative autonomy (from society in general or classes in particular) this type of autonomy is specific to capitalist society and arises because the capitalist mode of production coerces free labour into relations of production. On the other hand, the state emerges in all class-divided societies as a force which appears to stand over society (has autonomy), mediating conflict within and between classes. The critical difference between capitalist and pre-capitalist formations lies in the separation of the political and economic fields in the former and their inter-penetration in the latter. In either case state autonomy operates only at the level of appearances: the state in fact acts to further the interests of the dominant class.

It is worth stressing that it is only under the conditions of advanced capitalism that the state is freed from its direct intervention in the productive process and the exercise of extra-economic coercion. Under conditions where capitalist relations of

production are tenuously inscribed in a social formation the state is necessarily directly involved in enforcing mechanisms of surplus extraction, possibly extending to direct involvement in the production process. In Lineages of the Absolutist State, Anderson (1979) argues that the particular form of pre-capitalist societies can only be “read” from the type of state structures since states in all pre-capitalist formations are involved in production. The problem with such an approach is that it removes the need to research and understand the material processes which underlay state power and will tend to paper over the gaps in our knowledge which, particularly in Africa where the data-base is very incomplete, are substantial. In turn this could lead to an arbitrary and taxonomic distinction between types of pre-capitalist regimes which will add little to our understanding of the determinants of continuities and ruptures in African social formations.

For example, when, as in Ethiopia, the state intervenes directly in the production process and arrogates surplus to itself, increasingly to the exclusion of dominant classes, then the distinction between state and society, between state personnel and the ruling class is apparently collapsed. It is this apparent merging of the categories of the state and the dominant class in pre-capitalist societies, and Ethiopia is no exception, which has encouraged social scientists to consider state personnel as a ruling class. In this thesis I have attempted to separate these categories and in doing so to offer an account of the state, of dominant classes and of the mode of production which explains their inter-penetration.

This general review of the literature on state autonomy is particular relevant to Africa where the concept of the suspended state has gained extraordinary influence. In general the African state has been viewed in the literature as suspended over (having

autonomy from) society. It has been argued that the inability of the state to extend its writ over society, together with the independence of rural producers from other social classes and from the state, has led to the separation of the state from society. The state, rather than being embedded in domestic structures is perceived to be externally orientated, linked to society, if at all, by patron-client relations. This preoccupation with the external determinants of the state is indicative of the influence which dependency theory has had on African studies and has led to the neglect of other determinants, including domestic classes. It is also of course an attempt to explain the impact which colonialism and de-colonisation has had on the structures of the African state. In particular, one of the enduring themes in the analysis of post-colonial African states has been the impact which the creation of so-called artificial borders has had on the viability and legitimacy of African states. The drawing up of territorial boundaries without reference to the ethnicity of the populations living within these borders, or to the geography or ecology of demarcated areas has been repeatedly cited as the cause of regime or state collapse in Africa. The inability of several African states to extend their remit beyond the urban centres and their relentless confrontation with sub-national groups has been seen as indicative of a fundamental and unresolvable contradiction at the heart of the African state: states without nations ruling over nations without states. This view implicitly overemphasises the extent to which nation-states in other regions either exist (in the sense of the nation being coterminous with the state) or are “authentic” (in the sense of the nation coming organically into statehood). It ignores the extent to which territorial borders across the world have been imposed on populations without leading to either state or regime collapse. An explanation for the persistence

of these fragile states has been sought in a distinction between de jure and de facto statehood. Jackson and Rosberg have argued that international recognition has conferred de jure sovereignty on the African state while de facto sovereignty has been withheld by domestic society. Yet, significant as international recognition is for the maintenance of sovereignty states must have the support of at least some sections of domestic society. As with the concept of the state itself this may reflect a degree of conceptual confusion. In advanced capitalism sovereignty exists when the state exercises a significant degree of control over its territory and the people living within it. This level of control or reach is something pre-capitalist states can only dream of but nonetheless they exercise some degree of sovereignty, they collect taxes, recruit soldiers, employ civil servants, and are recognised by at least some parts of civil society. In short, the pre-capitalist state does not cease to be a state simply because it is not what it cannot be: a capitalist state.

Rather than beginning with the problem of how to conceptualise the state it may be more useful to take as axiomatic the view that the state reflects, embodies and mediates contradictions within and conflicts between classes. That is to say, it is implicit in the nature of the state that it is rooted in society. The state can only be suspended over society at the level of appearance. The fragility of the state, which is revealed, paradoxically, in its tendency to coercion and violence, reflects the fragility of dominant class formation, rather than that of a fragile state confronting a robust society. The problem for analysis then becomes one of identifying the interrelationship between classes and the ways in which the state intervenes in that relationship, and understanding why it intervenes, albeit in an indirect or ambiguous way, to further the interests of a particular class.

## Class in Africa

The inter-penetration of economy, state and society has tended to obscure the importance of class as a useful concept for the analysis of African social formations. The African peasantry has been conceptualised as a social group rather than as a class and in general attempts to understand the relationship between the state and non-state actors have been largely dealt with in the simple opposition state versus civil society. The former perspective focuses on the low level of development of the productive forces and the possibility for exit which that allows the peasantry the latter is derived from dependency theory and privileges the external orientation. What they share is an insistence that there is no independent (i.e. non-state) ruling class. The collapse of the categories of state and class has often, particularly in African studies, undergone a further shrinking in which the state and the ruler are taken to be interchangeable. Jackson and Rosberg have again been very influential with their argument that politics is contained within the state and therefore in the actions of men and institutions. In Africa politics, they argue, has resided only in the actions of men and not in institutions and therefore the actions of Africa's rulers, of its "princes, autocrats, prophets, and tyrants", have been "more important than anything else"(1982:3). Personal rule therefore becomes a type of political system the continuation of which, in their view, is not dependent on social and economic conditions but on the lack of institutions (they do not consider the possibility that these two variables are themselves related). Jackson and Rosberg's taxonomy of personal rule is more sophisticated than most but this emphasis on the actions of rulers still diminishes our understanding of the structure of African politics. Where the category ruling class has been applied in the African context it is usually

merged with the state in a kind of hybrid state bourgeoisie who extract surplus from the peasantry by their control of the means of domination rather than the means of production. This state-bourgeoisie, in so far as it has domestic roots, is seen to be allied to an unspecified urban constituency in a ruthless exploitation of a disenfranchised and unrepresented peasantry. In this view the state is self-perpetuating and, supported by state personnel, persists through its control of resources (aid, taxes, bribery). The state is taken to be the site of dominant class formation and reproduction.

The existence of this state-bourgeoisie is attributed to the logic of colonisation and decolonisation in which political power afforded opportunities for economic power which did not exist independently of the state. In fact the inter-penetration of the economic and the political suggests that colonialism did not nurture capitalism in Africa and while it transformed (or at least impacted on) African states and societies, pre-capitalist structures persisted into the post-colonial period and pre-capitalist dominant classes took control of state structures. The term state-bourgeoisie is therefore doubly misleading in that it implies not only that a ruling class exerts political and economic power in the same site (its occupation of the state) but also that this ruling-class is capitalist. Rather, it would seem more useful to think of state bureaucrats as simply that (Leys, 1976), without ignoring the possibilities for corruption and graft which that allows. The simple extraction of surplus from an agricultural community does not make the expropriators bourgeois. Indeed, the merging of economics and politics which this presupposes should alert us to its un-bourgeois character. The separation of the economic as a discrete sphere of human activity is a defining characteristic of capitalism.

Sender and Smith in their flawed account of The Development of Capitalism in Africa (1986) argue that capitalism has taken root throughout the continent. Their account is based on evidence drawn from secondary sources and official data series from eleven sub-Saharan African countries, including Ethiopia. They sketch the importance of pre-colonial trade as a mechanism of surplus appropriation by ruling-classes and the competition within dominant classes (including war) that it generated. In the nineteenth century trade with the advanced capitalist countries dramatically increased with the effect of transforming subsistence goods into commodities and creating demand for new goods. In turn this trade stimulated the development of transport, transformed tenure and domestic production and created a market for free labour. Export markets also stimulated the development of primary processing industries. Revenues which accrued to states from taxes on exports and export production were substantial. Despite these developments colonial states and metropolitan industrialists who resisted competition were hostile to the development of African industrial capitalism and blocked its further growth. Independence should have removed these blocks, and indeed after independence state intervention and import-substitution industries led to the extremely rapid development of the forces of production. Their conclusion is backed up with a number of tables which show a rapid increase in industrial and manufacturing capacity. These do not however give sector breakdowns and it is likely that they include small-scale manufacturing and industry. In any case it seems very clear ten years later that their study overstated the extent to which capitalism was flourishing on the sub-continent in the mid 1980 s. However, their plea for understanding African development in the context of domestic class struggles is still pertinent.

While Sender and Smith overstated the extent to which, so to say, “real-existing” capitalism had taken root in Africa, it is hard to exaggerate the extent to which capitalism as an ideology, as the source of development has taken hold. By the end of the 1980's the entire sub-continent has accepted capitalism (Leys and Berman, 1994). The literature on capitalists as a class in Africa remains very small, entrepreneurs tend to be treated as individuals, not as part of their class. While the political capacity of capitalists is as important as their economic or technical resources, their role as a social class has been understudied because the African bourgeoisie is embryonic and weak and because the analysis of class in Africa has been dominated by the legacy of dependency theory with its emphasis on the dichotomy between the internal and the external (Leys, 1994).

In his critique of development strategies adopted in Tanzania (Beyond Ujamma, 1980) and more generally in Africa (No Shortcuts to Progress, 1983), Hyden developed the term peasant mode of production which he argued prevails throughout sub-Saharan Africa. What Hyden calls the peasant mode of production is fundamentally dependent on two conditions: the first is that the producers own or control the principal means of production, land; the second is that having control over land they are free to organise the means of production in specific ways. The unit of production is small, typically a household. There is a rudimentary division of labour and virtually no product specialisation. There is no structural interdependence bringing units into reciprocal relations and leading to the development of the means of production. Given a rudimentary technology, producing basic necessities and meeting social obligations are time-consuming tasks. The scope for a surplus product and therefore for class differentiation is limited. This organisation of production

generates certain relations between producers and between producers and ruling classes. Producers develop networks of support between economic and social groups who would otherwise be autonomous. Hyden calls this the "economy of affection". Ruling classes are not involved in the organisation of production and each unit of production exercises a high degree of autonomy. Since the productive and reproductive needs of peasants can be met without the support of other social classes relations between rulers and ruled are external to the production system. Instead, appropriations are made by taxation "and as such they are simple deductions from an already produced stock of values" (Hyden, 1983:7). They are tributary rather than productive relations which implies a correspondingly limited degree of social control. The state, structurally superfluous from the point of view of the individual producer is experienced by him or her as a foreign influence.

Hyden's argument for taking a peasant mode of production as the key concept for the analysis of African societies is initially persuasive. His account of what he calls the peasant mode of production is descriptively accurate (peasants do control the conditions of production and enter into specific social relations shaped by those conditions), but ultimately fails in its explanatory power because it does not elucidate relations between peasants and other classes. Reading the peasantry as independent of other classes leads Hyden to view the state as suspended over society. What he fails to explain is why the state persists if it plays no role in society.

Bernstein (1979) makes this same point that an analysis of peasant production which locates itself entirely within the peasantry risks being merely descriptive. An analysis which seeks to explain the ways in which production is organised and in which surplus is appropriated must examine the relationship between peasants and

dominant classes. Bernstein also specifically rejects the "most obvious solution to the question of appropriation [which] is to view it as effected through relations of exchange.[This]...can only suggest relations between capital and peasants at the level of the market" (1979:435). He adopts the position that "peasants have to be located in capitalist relations of production" (1979:437). However this approach underestimates the character of merchant capital and the ways in which , both directly and through state action, it organises production so as to maintain its access to surplus. It also overestimates the expansion of capitalism and its impact on pre-capitalist forms.

Hyden's model shares with other attempts to conceptualise the dominant mode of production in African societies a preoccupation with the state's extraction of surplus through tribute. Samir Amin proposed the model of a tributary mode of production for pre-colonial Africa. Essentially a re-working of Marx's Asiatic Mode of Production, it supposes small-scale agricultural producers providing tribute and taxes to the state which organises large scale public works. This model is not of course an attempt to explain the state in modern Africa, but even in pre-colonial Africa it appears to ignore the extent to which state power rested on long-distance trade. Furthermore the attempt to extend the Asiatic mode of production to Africa only compounds the errors inherent in that concept. As an account of social formations in which subsistence agriculture predominates it is similar to Hyden's "peasant mode of production" and can be criticised in the same manner for failing to specify the relationship between peasants and other classes, and the domestic roots of state power. The idea there are no intermediate forces between the peasantry and the state is characteristic of the literature on Ethiopia in particular. It ignores the important

role which merchants play as a dominant class in structuring state action and in expropriating surplus from direct producers.

Coquery-Vidrovitch (1978) has suggested that pre-colonial African states rested on control of long-distance trade. She considered that the exclusion of merchants from political power through the application of cultural sanctions precluded state action on behalf of, or in co-operation with, merchant capital. Boone in her study of capitalists and state personnel in Senegal argued that merchant capitalism's alliance with the post-colonial state blocked the further transformation of the Senegalese economy, finally at the expense of merchant capital itself (Boone, 1992). Despite her clear recognition that the state acted for merchant capital Boone does not explore the possibility that this class is the dominant class in Senegal. Instead she argues that bureaucrats in the post-colonial state can be characterised as a political, social and ruling class whose power rests in their control over commercial circuits. MacGaffey (1994) has argued, in the context of post-colonial Zaire, that traders are transforming the Zaireian economy despite state actions through their involvement in a flourishing and ever-expanding "informal economy". It would seem that state actions, despite intentions, have stimulated the informal economy by creating the bureaucratic machinery within which an illegal economy flourishes. MacGaffey's account alerts us to the fact that state actions which create (probably) unintended effects also have to be analysed as state actions, otherwise we are left in the untenable position that intentions become the subject of more analytical attention than effects do. What each of these studies share is a recognition that the significance of merchant capital greatly exceeds that of industrial capital in Africa. The nationalisation of industry (where it existed) and other state interventions in production, e.g. through state-sponsored and

joint venture import-substitution industry, is indicative of the weakness of industry and the strength of other classes, in particular of merchants. It is not indicative, as it is usually taken to be, of either the rapaciousness or the capacity of the state. This emphasis on the importance of merchant capital obviously calls into question Bates' highly influential view that "African governments have sought to use government power to promote urban industrial development"(1981:105).

Of the substantial literature on trade in pre-colonial societies, Polanyi's work has been very influential. In The Great Transformation (1957) he showed that the ahistorical formulations of classical economics were erroneous. In particular the assumption that people are "economic men", in the sense that they make decisions about production and social life on the basis of economic calculation, is limited to the market economies of industrial capitalism. In both The Great Transformation, and his later work on economic anthropology, he showed that markets were incidental to the organisation of economic, social and political life and that rather than society being a product of economics, the economy in pre-capitalist society is embedded in society. Therefore, the character of pre-capitalist (or non-capitalist) societies was to be found in an understanding of kinship, social obligations, and so on, and not in the economy (in the narrow sense of markets).

While I agree that trade does not impact on social life in pre-capitalist economies in the ways in which liberal economic theory predicts, and that various mechanisms exist to ensure that trade does not undermine social life, e.g. the stranger status of merchants, and which function to entrench peasants in their existing conditions of production, Polanyi overstates the importance of the market as the core of advanced capitalism. He takes the surface appearance of capitalism as constitutive of the

underlying reality. Indeed, when he says of Marx that “Capitalist society, Marx argued, was economic society, and therefore it was ruled by the laws governing the economic system, i.e. the laws of the market” (1957:134 - my emphasis), he misrepresents Marx’s method which was concerned with the ways in which surplus was expropriated from direct producers. The market was for Marx a surface appearance which concealed the relations of exploitation which underlay it.

In both pre-capitalist and capitalist formations society is embedded in the economy, as much as the economy is embedded in society. The particular form which social life takes in pre-capitalist social formations is shaped by the conditions of production and the relations of exploitation, one aspect of which is the absence of the market in the capitalist sense. However, while there is no capitalist market there is a highly significant long-distance trade in which merchants engage and from which the state extracts tax and tribute. Merchant capital is crucial to the maintenance of state structures. This relationship between merchant capital and the state does not exist alongside subsistence production but is implicated in reproducing the conditions of rural production.

## Conclusion

In general, Marxists view merchant capital as parasitic on social formations and therefore able to coexist with any mode of production. Since merchants extract surplus in the sphere of circulation rather than production the argument is that some other class or classes appropriate surplus in the sphere of production and merchants simply graft themselves onto this. Among petty-commodity producers, as peasants may be characterised, seniors exercise power over and appropriate surplus from

juniors. While that model does illuminate one set of power relations it does not seem to explain the broader set of state-society relations. I am suggesting here, against the view that mercantilism is always parasitic, that trade exists in all societies at more or less sophisticated levels but that in specific instances surplus is primarily appropriated in the sphere of circulation. In those instances state actions further the interests of merchant capital by protecting it from the destructive impact of industrial or productive capital and assisting the extraction of surplus from peasants through extra-economic coercion. It is plausible in these instances to speak of a mercantile state. If merchant capital can simply graft itself onto or coexist parasitically with any mode of production then a competition between industrial and merchant capital such as that which has been played out in post-colonial Africa would be unnecessary. What emerges from this analysis is that the confrontation is not between local and foreign or comprador and nationalist bourgeoisies but that it is a struggle between mercantile and productive capital. This point is further substantiated by the impact which regime actions have had on that part of the peasantry which were engaged in petty-commodity production: blocking any opportunities for transforming that into incipient capitalism.

It is not only Marxists who have assumed that capitalism would remake the world in its own image, capitalists have been equally guilty of this teleological vision. Nonetheless non-capitalist social formations stubbornly persist and if the analysis offered in this thesis is correct will continue to do so. International actors may seek to use their leverage over non-hegemonic states to make the world safe for capitalism, but they may be frustrated in their aim by the robustness of domestic economic and social structures and the search for an arena of domestic legitimacy,

in the limited sense of satisfying elite interests, which regimes depend on for their survival.

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## Appendix One

### INTERVIEW TRANSCRIPTS

In the course of my fieldwork between April and September 1995 I conducted in-depth, semi-structured interviews with ministers, civil servants, country representatives, EPRDF party members, and representatives of non-governmental organisations working in Ethiopia. The analysis of these interviews was an important part of the process by which I arrived at the account of Ethiopian state and society offered in this thesis. What follows are selected extracts from the transcripts of interviews from a representative sample of interviewees.

1. Dawit Yohannes, Legal advisor to the President.

In the Derg's international relations two aspects were dominant. Firstly the alliance with the Soviet Union which gave it the capacity to pursue a military solution in Eritrea and Tigray. Secondly, and arguably related to the this, relations with neighbouring states, especially Sudan and Somalia, were very unstable. Did the collapse of the Soviet Union contribute to the TPLF's victory over the Derg in 1991, and, more generally, has the reconfiguration of the international system which accompanied the end of the Cold War created new opportunities for Ethiopia?

Our struggle began and developed long before the USSR disintegrated. But in the final stages of victory of course the disintegration of the Soviet Union helped us a lot by withdrawing the military capabilities of the Derg. But even before that we had already beaten them out of two-thirds of the country. The most fundamental change is the end of superpower politics - the end of the Soviet Union. And that means the paramountcy of indigenous political forces. And in this region that has proved

correct, especially if you consider the way Eritrea and Somalia evolved. There is a degree of superpower politics but superpower politics as polarisation has ended. When the Soviet Union disintegrated those states that had been put together at the end of colonisation also unglued. Other than that the international input to change in Ethiopia is very minimal at this stage. It is more or less indigenous forces that are working now. And in that sense the international community is an onlooker.

The EPRDF's major target in foreign policy now is making sure that we live in peace and that we work together with the rest of the world for peaceful existence and change. The EPRDF is pragmatic: we aim to make sure that we don't get involved in unnecessary international contradictions, issues. But on the other hand the EPRDF also recognises that international order is not something you take for granted. There are lots of institutions for Ethiopia, and especially for Africa, that we would like to work with for development and peace. We hope that the major countries in the western world, including the Chinese and other powerful countries would recognise the need to have an equitable relationship internationally; In terms of access to capital, the liberalisation of trade and of credit and the transfer of resources internationally; so that we would be in a position to have an equitable share in international development. The new economic order that has been articulated up to now is really very vague. We would like some more accurate articulation of that. We would like equal access to international resources for all people. That would require a lot of changes. At this moment we are very poor in terms of our capacity to negotiate for our own interest in the international community. The time will come when the marginalisation of Africa and in particular of Ethiopia will stop sliding downwards and then we will be in a good position to make sure that the

democratisation of the international community will benefit our own interests as well. Human civilisation has reached a level where the globalisation of democracy has become a practical issue and therefore the conditions will come to exist in which international relations can be restructured based on the interests of all participants. The Derg's land reform was very popular in 1975 but subsequently it has been cited as the cause of low-productivity in agriculture. Despite this fairly widespread criticism of land reform, the EPRDF is not proposing to privatise land. What is the EPRDF's assessment of the relationship between land ownership and agricultural productivity?

Agricultural productivity will increase as the supply of inputs and rural credit increases, so long as the farmer has free access to land. The share of irrigated land will have to increase. Only fifteen per cent of arable land is being farmed. The Ethiopian peasants net worth, according to an EEC study of 2 years ago is about US\$34. Selling all his assets will not enable him to change sectors, go into industry, go to the city. In the first place there is no industry, secondly his assets would not last a day. The peasant cannot afford the risk of displacement and the only reason that he is not being displaced is that the farm isn't private property. If it were it would capitalise the land and displace the farmer. With the peasant we say we'll give them the necessary inputs, we'll supply them with rural credit and make sure that they can be at least productive enough to sustain themselves for a couple of years and after that we'll make sure that their productive capacity would entitle them to a better standard of life. If you make land private property you will not trigger development. In fact you'll trigger a disaster, because of the meagre level of existence that the majority of the peasants are in.

We will allow private property to develop on the rest of arable land, more than three-quarters. The government will provide the infrastructure to attract the private sector in to exploit that land. They will be given it through rural land lease. We intend to make sure that rural land remains so cheap that anyone who has money can go and lease it and then expand and produce. If foreigners can come up with large enough projects then we would be inclined to give that priority. But if it is on the same footing as a domestic investor we would prefer the domestic investor to be given priority. The agricultural economy at this stage cannot be the basis of revenue for the government. We have to shift that in a different direction and make sure that, for example, we tax commercial activities. If we can improve our foreign relations and our presence on the international market we think the government would gain more out of that than from the land.

It has often been said that the Derg accelerated a process of state centralisation which was begun under Haile Selassie. It is well known that the EPRDF, not least because it has inherited the political programme which the TPLF fought on the basis of for nearly two decades, has declared its commitment to decentralisation. Why has this commitment to regional autonomy been so central to the TPLF's political struggle both in opposition, and now in power? Do you have any concerns that decentralisation, far from appeasing national sentiment, may lead to the dissolution of the Ethiopian state? And finally, how successful have you been in fostering this perspective among other nationalities?

The decolonisation process - first colonisation and then decolonisation - has been very unfair and anti-democratic for Africa and Ethiopia. The post-colonial states have become artificial entities that have been blocking development and peace. The

reorganisation of these post-colonial entities is important and that's why we imposed the reorganisation plan in Ethiopia. We are restructuring the country to such an extent that even the break-up of Ethiopia is to us a natural phenomenon. The post-colonial state between Ethiopian and Eritrea has already been disintegrated. The devolution of these two states we believe is the most important component of the democratisation process. The most important lesson of this experience for countries like Somalia and Sudan, for our neighbours and for the other post-colonial states that have factions, like Zaire and Rwanda, Nigeria, even Guinea and Sierra Leone, is that the phenomenon of the indigenous political forces being unable to control their own fate has created such an artificial state that stagnation has become a way of life. It is important to empower the indigenous political forces so that they would create the foundations for a viable multi-national state. We believe that our experience will one day reflect the validity of this reality and Africa will be re-organised.

We don't have any feeling about what the state is supposed to be. If Ethiopia can be divided into two nation-states and they can embark on development, I think it is better for the people. For us there is no historically resolved issue. In the past one hundred years if our forefathers did not succeed in creating one nation out of these diverse ethnic groups. They failed dismally. Civil war and ethnic conflict was a way of life. That drained all the resources that we had for development. What we are saying now is: if you are an Ethiopian, of whatever ethnicity, you have to make a conscious decision - either to form your own independent government and embark on development or join hands with other multi-national groups and with other ethnic groups in a democratic, multi-national state and embark on development with peace. The pattern for the last twenty, twenty-five years should clearly tell you that there's

a very serious misalignment of interests in this country, otherwise a state cannot sit down idly in Addis and do nothing while the majority are punished with war and starvation. From our own experience, from EPRDF experience, nearly twenty years of struggle has shown us that there are fundamental misalignments that must be adjusted. When you raise these questions among Ethiopian intellectuals they will tell you that Ethiopia has survived for 3,000 years and ask how we can break it up now and let it be swallowed by a larger entity. But it is to our advantage to work with a larger state. And this 3,000 years of history, if it has to go to hell in order to create a larger market, we will sacrifice [it].

The biggest problem is identifying the common interest among the diverse ethnic groups. And that's why we go into every ethnic community and we tell them, unless they pursue our line of thinking - a revolutionary democratic approach to the formation of the state, meaning they should be in the first place be proud as an ethnic group, that they are equal with any other ethnic group and we would not accept any discriminatory approaches. Every ethnic group is equal - politically and socially. The assumption is that each ethnic group would be interested in pursuing its own cultural and economic advancement. But to do that we would tell them you have to create a state entity at this stage. And to do that they have to clean themselves from any narrow, nationalist approach, from any inter-ethnic hatreds and they have to democratise their own thinking patterns to make sure, to the tune of making ethnicity irrelevant once you've started thinking in terms of peace and development.

We have made a tremendous change in that regard. That's one aspect which people don't seem to understand very much unless you get closer to the ground. Take, for example, the TPLF. Among the Tigrayan people, the community, about twenty years

ago there was a much different political chemistry there. There was this narrow nationalist organisation, the TLF. With the evolution of the TPLF it was possible to make revolutionary-democratic politics very dominant among the Tigreans. Then came the Amhara section, then called the EPDF, now called the APDO. Before we evolved these organisations among the Amhara, there had been quite different organisations, some of them purely chauvinist like the all-Amhara groups you see in this region, in the Addis area, but even in Gondar and North Wollo, most of the Amhara highlands, Gojjam and so on, there had been very strong resistance to creating Amhara interests as an ethnic interest because they thought of it as divisive - as breaking-up Ethiopia. We have overcome that. We have become now the most dominant political force among the Amhara. And in the Oromo region nearly four or five years ago OPDO was a very minor group compared to the OLF and other political organisations. But if you go to Oromia now, the PODO is probably a very large organisation and can command a significant mass following among the Oromo. The southern people, before we entered Addis we did not have any significant group among major ethnic groups in the south - there are about forty nationalities there - but now we have at least among a few of them a revolutionary democratic organisation. Those people who are willing to work in terms of restructuring Ethiopia on the perspectives which we have acquired. So now, nation-wide, except in Somalia, Afar and Benishangul, the revolutionary democratic politics of the EPRDF has become dominant. So that's a very major achievement. In making people understand through their own indigenous political forces that it is possible at the same time to preserve your interest very strongly and at the same time to work with other groups. This influence predates our entry to Addis Ababa by at least fifteen

years. In the Amhara region, for example, before we entered it we were already a dominant force among the Amharas. The Oromos were the most challenging part. But after we entered it became clear that our line of thinking was much more in tune with indigenous political forces.

2. Dessalegn Rahmato, Institute of Development Research, Addis Ababa University. The Derg's attempts to intervene in the rural economy began with land reform, which was well-received by the peasantry, for the most part. The interventions which the Derg sought to make after that were resented for the additional burden that they imposed on the farmer. What is your assessment of the Derg's agricultural policies, and peasant responses to them?

My argument is that the socialist policies of the Derg were very harmful to agricultural production. Disincentives made it difficult for peasants to innovate or invest on their land. The land reform was popular, and for the first few years after land reform the Derg was very popular in the countryside. The Derg was able to secure the support of the peasantry in the countryside. The vocal element that demanded land reform was not the peasantry but the urban activists, left elements, the young in the urban areas. But the peasants responded favourably. At first they were suspicious, they didn't know what was going on. Later they became, as they realised that this was a positive reform, quite enthusiastic. Particularly because they did away with the landlord, and that of course was popular. And that element of the reform I think gained the support of the peasantry. But gradually the Derg lost popularity and support in the countryside. Not because of land reform but the subsequent agricultural policies. First came collectivisation: co-operatives, and state farms were given unlimited authority. They became a threat to peasants. They could evict peasants, commandeer labour from neighbouring peasants. This is the threat they posed. And then later on the pace of collectivisation was accelerated. Peasants were given the understanding that they would be collectivised sooner or later. Then you had other policies like grain requisitioning and enforcement of very low grain

prices. The Derg tried to stifle the market. In some places they physically closed down markets. In others they tried to prevent peasants from going to the market. So this also was tremendously resented. Other policy reform measures were designed to siphon off the surplus from the countryside to the urban areas into government hands. The Derg did away with the landlord but reappeared as a very tyrannical landlord. With all the resentful demands and exactions on the peasantry. More in fact than a traditional landlord did. These reforms of course undermined the land reform. Because all of these reforms were based on land reform. Ownership of land was now in the hands of the state and the state could do anything it wanted with the land: could throw out peasants, it could collectivise them, and so forth. In the 1980 s you have these huge villagisation programmes. Itself very destabilising and horrendous. And then you have resettlement. So you need to put all of these together to explain why the Derg became very unpopular in the countryside towards the end of the 1970's, and by the 1980's this had accelerated.

I don't think there were significant yield improvements in the years after the 1970 s. In the first few years of land reform there were indications that yield was improving. Although it is debatable whether or not the market itself was improving . Some of the yield increase went to individual consumption. But the enforcement of rural socialist policies blocked improvements. For many reasons: insufficient fertiliser, peasants were insecure, they were unable to invest on the land, they felt that the land could be taken any minute. So they did not want to invest any resources. And then you can add to that, there was greater population in the countryside, land holdings were becoming smaller and smaller. So all these indicate that yield was decreasing. More population, less yield. And of course the peasant giving up more

of his surplus to the government. The individual sectors were starved. The focus was on co-operatives and state farms.

So your view is that the Derg's actions stifled agricultural development and that these problems with rural productivity stemmed from the basic problem of state ownership of land because this was the mechanism by which the government sought to control the rural economy. Is it the case then that you think that the current government's policy of retaining state ownership will also be detrimental to peasant agriculture?

I have argued on numerous occasions that we have to get across to the peasant that he has absolute security of ownership. State ownership is so closely associated with the Derg that to continue with it means to promote insecurity of holding among the peasantry. It's becoming worse. Peasants have heard that the government is selling off state assets - urban housing, nationalised industries, businesses and enterprises. The peasant thinks, well, they're doing it now in the urban areas, tomorrow they'll come and sell the land. This is a problem that will continue so long as the government sticks to its land policy. I'm not arguing in favour of a land market, but for security of tenure. A combination of individual freehold and community responsibility for the land. There must be a mechanism by which the active, aggressive or enterprising peasant should have access to more land. The poor peasant, who cannot use his land efficiently may want to lease it, lend it, or even sell it to his neighbour and he should be able to do so. But he should not be coerced into selling it. Absolute rights of ownership should be respected, but within the community there should be this movement of land from one person to another. What's happening now is some degree of land transfer in the countryside, even

though it's not allowed by the land policy. This hurts both the person who is giving up his rights and the other person who rents it. The man who leases it will not get the full price and the other one may not be able to get the land on a long-term basis because the landlord would be concerned he'd lose his rights.

The government has defended its land policy on the basis that the alternative would be to create a market in land which would in turn create a landless peasantry, a high level of rural unemployment and a drift to the towns which do not have the capacity to absorb them. The EPRDF's approach to developing the rural economy relies on the presumed benefits of one of their main policies: decentralisation. They have suggested that decentralisation will empower peasants and village communities which will lead to appropriate and sustainable development decisions. What is your view of the part which decentralisation can play in rural development?

I am very sceptical. I don't think it will have a positive impact on rural development because essentially it is not really devolution of power, it's decentralisation. The result has been the building up of a huge bureaucracy - which has to be paid for. So you have a bureaucratic change rather than a change in development strategy. Devolution that had development potential would have been one that gave more power not to regional bureaucracies but to the peasant in the countryside. Peasants should determine who has access to land and what they do with their harvest, their production and to feel independent of the state, and to gradually build up their own indigenous institutions to cater to their own needs. That would have stimulated rural development. Now what you have is a new bureaucracy, more of them on top of the peasant. An independent peasantry. An active assertive peasantry would have been the better development effort. In the past it's been from the top down. Now it's top

down except that you don't have this highly centralised structure. But the bureaucracy is there - a huge bureaucracy and it's still a top down approach. Although in some of the rural development programmes government officials are now talking about participation and so forth, there's very little participation.

3. Asmelash Beyene, Regional Advisor, Economic Commission on Africa.

I was vice-president of Addis Ababa University. After that I was transferred to the Institute of Nationalities which was working on the draft constitution of the People's Democratic Republic of Ethiopia. I also headed the provisional administration in the Bureau of Municipalities.

Although the Derg had a reputation for extending the process of state centralisation which was begun under Haile Selassie, it in fact made several concessions to the nationalities issue. Indeed, in many ways the current regionalisation programme, as it has been incorporated into the new Constitution, bears comparison with the 1985 constitution which inaugurated the People's Democratic Republic. Why did the Derg make these concessions? What was the contribution of the Institute of Nationalities to the EPRDF's regional policy, and what is your assessment of that policy?

The Derg's recognition of the nationalities issue was due to the fact that there were problems: Eritrea, Tigray, to some extent Afar, Somalia. There was a recognition that the nationalities issue had to be addressed somehow and so the Constitution had a number of clauses on the nationalities question. That was a step forward, because it had not been mentioned before and now questions of the rights of nationalities to develop culture, language and to be responsible for internal administration, were being addressed. The previous, Marxist, regime did not go as far as accepting secession. It was a unitary system. I was part of the Institute of Nationalities when it was considering the government structure prior to the drafting of the PDRE Constitution. We wanted to look at the federal state but were told that only a unitary state would be acceptable, and subsequent to that the state was highly centralised. The Constitution accepted the existence of various nationalities and allowed for regional autonomy, but that did not go far enough.

When the Institute of Nationalities began working, one of the things we did was to look into the geographical divisions. We thought about using ethnic, territorial basis as one way of delineating the regions. We had about five alternatives. In effect what the EPRDF did was to adopt one of them. The Derg did not accept that basis for delineation. When the EPRDF were first in power they were hostile to the Institute because of its origins in the Derg period. But they eventually realised that a lot of work had been done, and they looked at the ethnic based regional divisions, and adopted one of them. The Institute was converted into the Election Commission. It made a lot of input when the various organisations under the transitional government were looking at redrawing the regions. They relied heavily on the material that was accumulated when the Institute was operating. This was a technical group which considered the alternatives and weighed their likely consequences: the danger of secession against the likelihood that autonomy might diffuse ethnic sentiment.

Delineating the regions on an ethnic basis has been controversial. There are some concerns that this could bring more discord and conflict and the country could disintegrate. On the other hand, a centralised military government did not stop Eritrea from becoming independent. How power is exercised is more important than the Constitutional structure. It appears to have been successful over the last three to four years, and that may create confidence. Historically, Ethiopia evolved with a dominant group and achieved integration by subjugating the other nationalities. That has been a source of tension for a long time. Assuming that people can live together, provided that they are treated equally and are given sufficient autonomy over their respective areas, then there are still a number of interests that holds them together. The old formula is no longer applicable. Ethiopia cannot act outside of the democratisation trends of the last few years. Now that every group is given cultural

recognition and regional autonomy the question is: how do you redirect that energy and sentiment into creating a united Ethiopia?

4. Stephen Tucker, Democracy/Governance Advisor, USAID.

My research is on the period from 1974. It is concerned with three areas and the relationship between them: Ethiopia's external relations; economic development; and certain aspects of political organisation. In particular, how the government has sought to legitimise its rule, and how the relationship between the centre and the regions is managed. So, what I'm interested in talking with you about is your views on the reform process. First of all, what is your assessment of the TGE's economic programme and has USAID been involved in helping to frame the TGE's policies ?

There is no question of them having been dictated to. The TGE are receptive to donor analysis, e.g. urban land lease was a mechanism for generating cash but they were forced to backdown when investors withdrew. The US does expect leverage in economic reform e.g. setting the benchmarks for privatisation, in return for its financial support. The TGE's economic programme was depressing - very vague and low-level of analysis. Probably they are not committed to privatisation - but it is difficult since there are no buyers, no market for large enterprises, e.g. textile mills, which have been inefficient and heavily subsidised. Small hotels, and other small economic units would be easier to privatise.

What is your analysis of the government's stance on land ownership: is their intention to maintain state ownership of land likely to pose any problems, or are other aspects of rural economic management more decisive?

Land policy is just a continuation of the 1975 reform. It's urban groups which are complaining about the non-sale of rural land. Peasants don't seem to be concerned about state-ownership. Outrage in Addis Ababa was about *urban* land lease. I don't see government ownership of land as a major obstacle to rural growth. Other Derg policies were more decisive in blocking growth, e.g. state control of inputs and

outputs, being forced to sell to Agricultural Marketing Boards. If the government imposes high-taxation on new agricultural enterprises then the ownership question will be an issue. If tax-levels are reasonable then it won't be a problem.

What is the rationale for the regional policy. In practice how will regionalisation be implemented and what are the implications of this for the structure of local government and for revenue generation in the regions? I understand that the Oromia Liberation Front, which represents the largest region, Oromia, is concerned about the implications of the regional policy on its right to retain regionally generated revenues?

The TPLF say that you have to regionalise in recognition of the Derg's imposition on the regions of Amhara domination. Amharic is not just a lingua franca it's culturally oppressive and the regional policy is a safety valve to contain resentment at the loss of control [which the regions experienced] under the Derg. There are two aspects to regionalisation: the decentralisation of power and the ethnic basis of decentralisation. Amharas, although that in itself is a problematic category, are critical of the policy, particularly of the secession of Eritrea but also more generally of ethnic federalism. Concern about the ethnic basis of decentralisation is not limited to Amharas. There have been complaints about non-indigenes being made redundant from their jobs. The regional policy is very different to anything that has been tried before, and it is a gamble.

Prior to the May 1995 elections it wasn't clear what the regional governments would consist of. Regional government has become a replica of central government in that ministries are being duplicated rather than scaled back. Parastatals are already emerging in the regions as a way of increasing the generation of government revenues. The regions are also exploring other ways of generating revenue. Looking

for new sources of revenue was what precipitated Addis Ababa's urban land lease proclamation. Region 14 was facing bankruptcy and land lease was simply a mechanism for generating cash. It had a detrimental impact on investment. For instance, people who were renting their houses stopped because of fears that the house would be reassessed at a commercial rate. There is also a question of whether the regions will introduce tariffs on inter-regional trade which will impede the flow of trade but which may be necessary to the regions for income generation. But it's unlikely that the regions will form independent economic units.

Despite the restructuring of the civil service, since the TGE took office there has been a net increase in the number of civil servants of about 30,000. The regional budgets are too large. Since central government meets the payroll of the regional civil services there is no incentive for the regions to limit the number of posts being created. The regional allocation is about 8% of budget and is derived from local income tax and agricultural tax. The regional allocations were decided after the OLF withdrew from the governing coalition and the OLF are reportedly unhappy with the basis of the allocations. Oromia region provides most resources to central government.

The TPLF took power in 1991 and organised elections in 1992 for regional councils, in 1994 to appoint the Constituent Assembly, and is now in the middle of another election campaign to decide the make-up of regional and federal councils. During the 1992 campaign the opposition withdrew from the process and there is now no meaningful opposition to the EPRDF-sponsored parties. The current campaign therefore is something of a foregone conclusion. What, then, is the significance of the election?

The election process was symbolically significant. It is significant for ending the

period of transitional government and giving a degree of legitimacy to its rule. It is unrealistic to expect a multi-party democracy to form given Ethiopia's authoritarian history. In 1991 there was a donor slogan: "no democracy, no aid". So a democracy was created. But there is no concept in Ethiopian politics of a loyal opposition within government or within the opposition. You are either on our side and therefore right or not on our side and therefore wrong. The 1992 election fiasco was unfortunate because it allowed opposition groups to have a reason to withdraw and to justify their failure. The opposition maintain that they have no base outside of urban areas because of harassment. There was harassment , but the opposition is a bit disingenuous. The opposition has no base in the countryside and a lot of their constituency is external, i.e. the Ethiopian diaspora, and that's a problem - the extent to which politics are externally determined. Yet they are wary to let go of it because they have no base here. The government on the other hand is also disingenuous, it does harass the opposition to a certain extent.

The TPLF took control of central government in 1991 because it won the civil war. Its' liberation army is now the national army. Has the deeper transformation from a military force deeply involved in partisan political struggle been achieved?

The Derg's army was disbanded in 1991. Most of the 400,000 were given severance pay but many of these are still unemployed. The TPLF is now the national army and the government is making some changes to its ethnic composition, although people (non-Tigreans) say that the changes are token. The military are not officially politically involved. Many of the officers were senior central committee members in the field, but, for example, the Chief of Staff was forced to resign from the party last year because you can't hold a military and a party position. The government and senior officers agree on this policy and therefore so long as the EPRDF remain in

government it would be very surprising if the military intervened in politics. Criticisms levelled against it are unjustified as it does act as a national army, e.g. against irredentist groups in Ogaden and against Oromia but it has also intervened as a buffer in conflicts in the south. It is a very disciplined force.

5. John Cummings, Macroeconomic advisor, USAID.

The new government has expressed interest in attracting foreign investment to Ethiopia, although it has also set clear limits to the areas in which foreign investment would be welcome and the role which it is expected to play. It also hopes to attract private domestic investment to a whole range of activities. What is your view of the investment climate and the extent of interest from private capital, both foreign and domestic?

The environment for foreign investors is improving, but it's not necessarily safe. A legal system is evolving which recognises the rights of private investors, but it's yet to be tested. There has not been a great deal of interest from foreign investors and from an administrative, as opposed to a legal point of view, there's still a lot of bureaucratic obstacles to investment. Foreign investors have been attracted into gold mining - investors in other areas take less risks. Five or six months ago the Ministry of Natural Resources decided to do something with their gold deposits. There apparently is potential, according to incomplete surveys. Those kind of companies seem to be more willing to take risks in a country like this. They have more experience of dealing with risk, and they have evolved forms of protection, for example their capital investment may largely be in the form of capital equipment and technical skills. Privatisation has been underway since January 1 1995. The first enterprises that were offered up for auction were mostly small ones and most of the interest would have been from domestic investors. The mid-May auctions - hotels and bottling plants - should attract some foreign investors, Coca Cola and Pepsi are interested. They're currently producing here under licence and the plants belong to the government. The Finchaa sugar project isn't really a test [ of foreign interest] since its basically a turnkey project with foreign companies producing the plant

which is government property. It's a state enterprise that's been planned for a number of years.

The estimates of capital in the hands of Ethiopians are things people pull out of the air. I've heard figures as high as six to seven billion birr held in various asset forms by Ethiopians inside the country. On the other hand the Mercato people complain that they'll be badly hit by attempts to sell of the property in which the Mercato is because they don't have working capital. On top of this there is a sizeable number of Ethiopians, maybe five hundred thousand overseas. There is some interest on their part in investment but they are unwilling to transfer from a hard currency until the situation is clearer. Until the [currency] auction results come in there is no telling how deep the market is. There probably has been some capital hoarding in the last twenty years by some sectors to protect what they had. Many of them haven't decided yet that the situation has changed enough to move out of the asset forms which they have been using.

Regionalisation is an important part of the government's strategy for seeking political legitimacy. It also hopes that by satisfying regional demands for autonomy it can create the conditions under which economic development can flourish. In particular the scope for local-level decision making which regionalisation offers should mean that development proposals are appropriate to micro-level conditions. Set against this optimistic scenario is the possibility of uneven development and of the larger regions either dominating the Federal government or opting to secede. It has also been suggested that the structure of revenue generation and of capital and revenue expenditure means that in practice central government continues to dominate decision making. What do you think the likely impact of regionalisation will be on political and economic development in Ethiopia?

The financial costs of regionalisation can be tracked from the budget: the costs of administration, of setting up the government apparatus, of relocating people, and so on. Although these costs have to be balanced against the fact that the central government has shrunk. It's very difficult to tell what is happening with the payroll. Much of the increase in regional staff has come from relocating staff from the central ministries in Addis Ababa. There is now, for example, a Ministry of Agriculture in each of the regions. These regional ministries coordinate with the central ministry of agriculture, rather than being an outpost of that ministry. However it is clear that the regional governments will have some latitude in the hiring of staff and that may mean an overall increase in the payroll. For the present, shortages of professional, white-collar staff, suggests that there has not been an overall increase in employment. Whether there will be additional costs, and what the scale of them will be, will only become clear over time.

The benefits of decentralisation should be that the capacity for implementing micro-level projects increases. The IBRD part-funded Five-year Social and Rehabilitation Fund, currently in its first phase, is based on that premise: that the more locally-based a project is the more relevant it will be to local needs. The Social and Rehabilitation Fund will fund small scale, say US\$10,000, projects initiated at local level with assistance and co-ordination coming from the regional, rather than central, government. The initiators of the project will have to provide ten to twenty per cent of costs in cash or kind. If devolution of power does operate at this level then a lot of the necessary infrastructure in the countryside could be put in place. There is some concern that these projects will tend to be initiated by the better developed areas, although neither the TGE nor the IBRD seem particularly concerned about that. Their view is that if in the first two to three years it is the better developed areas

which benefit, within ten years - in the second stage - that should even out across the country.

Three of the regions are as big as most African countries, with a population of twelve to seventeen or eighteen million: Oromia, Amhara and the Southern Region, with populations of 18, 15, 13 million, respectively. Together these three regions have about three-quarters of the country's population. In a country that is very large and diverse, not just in terms of people but also climate, geography, etc., the more localised planning and administrative responsibilities are, the more effective they should be. In the longer-term that should also mean less waste and therefore lower costs. The smaller regions, and some are very small, really do not have the human resources to match the capacity of either central government or the other regions. Therefore they will need direct assistance from the centre with, say, spending their capital budgets. Already capital budgets are not being spent, even in some of the better-developed areas. Non-spending of capital budgets is also a problem with central government. That has probably been made slightly worse by devolution, although it is a problem which predates the transition. In general, the problem is the overall lack of personnel at the appropriate levels to carry through the project. In addition to which there are now these layers of government: local - regional - central and back to the regions which create time-lags in the implementation of decisions. That is also slowing down the spending of capital budgets.

The capital budget remains under central government control. As for the recurrent budget, with the exception of Addis Ababa, none of the regions generate enough revenue to cover their recurrent budgets. Addis Ababa, in addition to covering its recurrent budget, can also cover about sixty per cent of its capital budget. The Prime Ministers Office has developed a formula for transferring revenue, revenue generated

from donor receipts or from domestic sources, to the regions. The formula is not transparent and both regional governments and foreigners are unclear what the basis for the transfers is. It certainly takes into account the local tax base, and gives priority to the poorer regions and the former war zones. The expenditure budgets prioritise social spending and infrastructure and have cut back on military expenditure and funding state enterprises. It is unclear how much flexibility the regions will have in deciding their expenditure priorities. The tax structure is written into the Constitution and the tax revenue that is left for the regional governments alone are rather limited. The major sources of revenue remain under central control. Even if the regions were given direct control over a greater part of locally generated revenue, for example over all taxes related to agriculture, the revenue base would still be very small. Addis Ababa's tax base is potentially in very good shape. Business taxes and income taxes, which really only make sense in an urban area, are likely to grow, and the potential income from land lease is considerable. But that puts one central rich region on one side and almost everybody else on the other. As yet none of the other regions have a land lease system. It is unclear how much independence a municipality like, say, Mekelle has, probably not much. They do have a legal existence and some sort of local government but I suspect that they don't have control over their own resources so if they raise money it will accrue to the region.

The larger regions will probably exert a great deal of influence over the outcome of the regional policy - assuming that the country doesn't fall apart. However, since central government controls the distribution of revenue budgets they have to be linked to the central government. Theoretically Addis Ababa could be independent of the rest of the country because it has a stronger tax and revenue base, but that seems an unlikely outcome. Oromia, which surrounds Addis Ababa, is claiming that

they should get a subsidy from Addis Ababa's receipts. The OLF are claiming Addis Ababa as the capital of Oromia. In the poorer regions decisions on infra structural development will probably be imposed from above, particularly since they are getting a disproportionate share of the capital budget. Poor as the country as a whole is, there are regions which are better developed and have more potential.

The Transitional Government has succeeded in attracting considerable levels of international aid since it took power in 1991. In addition to new grants and loans it has successfully negotiated the restructuring of debt inherited from the Derg. Nevertheless the ratio of GDP to debt -servicing remains high. What is the current level of the countries indebtedness?

One of the reasons the ratio [of GDP to debt-servicing] looked particularly bad in 1991 was that exports had fallen so low. The ratio of debt-servicing to exports was more than 100 per cent. These were legal exports: coffee kept being exported from Djibouti that doesn't have a coffee tree in sight. That has improved - legal exports are now considerably higher. Some concrete steps have been taken, for example the Paris Club Agreement in 1992 which has almost finished. There has been a lot of rescheduling which has eased the problem. Most of what was owed to Western countries has been involved in rescheduling and in the meantime some countries have forgiven part of that debt. The US will probably forgive its portion, but that can't happen under US law until the current Paris Club Agreement is renegotiated. We should have something to say next year. The Germans and Italians have done a bit. There's a realisation that this problem had got to have something done for it. Ethiopia doesn't have much private debt, which helps. They have been involved with the World Bank in renegotiating. They owe a lot to Russia: about US\$4-5 billion which is now worth less than US\$100 million. The Ethiopian government has offered

to pay it back Rouble for Rouble, but that isn't worth very much and the Russians haven't agreed.

The World Bank loans are through IDA, and are long-term: 40 years at 1 per cent per annum. Almost everything else is grants. There is no real private sector [international bank] involvement. So what's happening now promotes dependency but it's not adding to debt. In the past a great deal of the debt was military related and that's not a government priority anymore. Money for social spending was grants. Some debts with the US go back to the 1970's for military equipment. We should be able to clear that up. Adding to the debt was a concern with the World Bank programme. The bank's financing is US\$100 million, of which 70 per cent is a grant, with no repayment for 10 years. It is for infrastructure. The World Bank hope that this will improve the productivity of the country sufficiently to enable it to pay back the loan element.

A key part of the government's economic policy, and indeed the basis of its ability to attract funds from donors, including the IMF and the World Bank, is its commitment to privatising state-controlled enterprises. The government's energetic pursuit of its regional policy is in some contrast to what appears to be a very slow-start to economic reform. What's your assessment of the government's performance on this so far?

There have been three phases to state disinvestment. 1. After the TGE took over some major reforms were put in place which had a certain impact. The currency devaluation being one. 2. The period from then up to a few months ago when nothing much seemed to happen. There were a couple of false starts, for example land policy, but other things that were supposed to happen weren't happening. Certain benchmarks that both the [World] Bank and the [International Monetary] Fund had

agreed on. There were 12 interrelated points, including privatisation and reform of the banking system, which left the government technically in violation of agreements. In the third phase from September /October a number of things happened: the privatisation agency started to move; the first auctions took place; the new Land Lease Law came into effect. The Agricultural Development Bank which had almost totally collapsed was recapitalised and now offers general commercial services, although it is still a government bank. Commercial banking licences were granted to private investors. So in a sector like that where privatisation per se doesn't take place they're allowing for the formation of private enterprises that will compete. Some easing of the red tape for investment and some changes in the agricultural sector re transport/fertiliser. We haven't got all we want but changes are happening. So when we did this evaluation back in February, where as the previous time out of 12 about 3 [points had been achieved] there has now been progress on all of them. Now we are in the second half there needs to be concrete steps to sell off enterprises and auction land: we need to see how these mechanisms will work. Given the election we're expecting things to slow down again for a couple of months.

6. Tom Gibson, Resident Representative, International Monetary Fund.

The Fund was approached by the Derg when it began its reform process in the late 1980's. These discussions floundered. Subsequent negotiations with the new government have been much more fruitful. Can you tell me about the negotiations with the Derg and then with the Transitional Government. How did the negotiations unfold, and what was the final package?

I was involved in negotiating the initial stage of this programme. The devaluation itself and everything else thereafter. There had been conversations with the previous government in the late '80's as they were struggling to shed policies. At the end of the 80's Mengistu did disavow much of the previous ideology and practice. They began developing on their own a Policy Framework Paper - this tripartite paper developed by the Fund, the Bank and the host government which in turn is always supported by an arrangement with the Fund. Either a S.A.F, which now no longer exists, or the current Extended Structural Adjustment Fund. The two institutions didn't want to be spending a lot of human resources without ever having something that would be grounded in a financial programme. Nothing came to pass from these conversations with the Derg. They would not consider an exchange rate change and the attendant producer price change that would have come with it. That was the big concern: the official producer pricing and the role of the AMC and all the controls on transport throughout the country. The Derg were not willing to speak to what the fundamental reason for impoverishment was, assuming away the war. There was no way one could square the budget and reduce inflation. Many people say the IMF just looks at the exchange rate, but so much depends on it. You can't get the budget right, you can't get producer prices right, incentives right, if you've got the wrong exchange rate. An overvalued exchange rate will lead to a budget deficit and the

diversion of economic activity into parallel markets. Under Mengistu there was inflation, official prices were not being moved, and they were very reluctant to change official prices. Everything was shifting into the parallel market. Coffee, which was 85,000 tons was, at the end of 1991 down to 30,000 tons. The Derg were prepared to do less sloganeering but they were not prepared to change official prices, of which foreign exchange was one. I wasn't part of the negotiations but I think they wanted to be seen as talking to the IMF and the World Bank as part of their reaching out to the EPLF and the EPRDF. With the withering away of Soviet support they decided that they had to bring other people in. They would, say, try to cut the budget deficit but without attacking the fundamentals which was to get the larger part of the economy within the official sector. They weren't willing to do that.

Then in May 1991 at the end of the civil war the TGE issued this document - The Economic and Financial Policy of the TGE. It gives the major outlines of policy and commitments. That came out in July or August 1991 and at the annual meetings of the Bank and the Fund there were discussions and a Mission was organised from the Bank in late August which gave rise to the Economic Rehabilitation credit. The Bank put several hundred US dollars into the credit which was co-financed by bilaterals and the ADB. In late 1991 there was a Bank-Fund Commission and the Article Four Consultation with the IMF. Following a Fund-negotiating Commission in January/February 1992 and further discussions in July, agreement was made on the exchange rate issue. In October / November 1992 the PFP and SAF were agreed by the Bank and the Fund. The Paris Club debt rescheduling followed. A World Bank sponsored aid consortium then took place with resources from the IMF, the IBRD, the Paris Club reduction and the aid pledges which came in. A number of months later the Bank put together a Structural Adjustment credit in the region of US\$25

million, which was also for Balance of Payments Support. One can read a lot about the role of the Bank, the IMF, especially the IMF, in taking the lead in drafting the PFP. In Ethiopia there was an enormous amount of ownership of this programme. Any differences which arose were over pace rather than objectives.

The initial objective of the programme was stabilisation: restoring balance in the domestic and external accounts. What had happened on the fiscal side was that the defence budget had absorbed so many resources that it had its counterpart in the current account and balance of payments. Under the Derg, Ethiopia hadn't been able to get credits from the West, with the very major exception of food, which in any event never went through the government but through the RRC and which was distributed by NGOs. So, the initial phase was stabilisation and that came about very quickly. Prior to the finalisation of the negotiations, from the end of 1991, the government began to reduce central bank financing of the government. The improved security situation and dissolution of the army was paying off. There was not a great deal of borrowing. They succeeded in reducing the fiscal deficit vis a vis the banking system and the domestic economy fairly quickly. At the same time external resources from multi- and bi-lateral donors for Balance of Payments support came in. Devaluation from 2.07 against the dollar to 5 birr against the dollar was done on October 1, 1992. A fortnightly auction system was introduced in May 1993. The parallel market rate stayed constant, the official rate converged on the auction rate. After the devaluation inflation fell, as it should. In '92/93 and '93/94 inflation was at 1 per cent, as measured by a bad Addis consumer price index - but everyone seems to give credence to the fact there was no inflation. Trade came back into the formal economy - a lot of economic activity was recaptured by the treasury. That bolstered the fiscal situation which made it easier for them not to slash funds to social sectors.

They raised it. They had the financing from counterpart funds, from foreign aid, and from increased economic activity. They did not have to engage in inflationary finance. They were able to reduce current account and balance of payments deficits and of course Paris Club rescheduling took them a long way. These are the text book easier things. They've harmonised the tax system with those of the surrounding countries, reduced customs tariffs and the number of bands, Business and Capital Gains taxes have been reduced. There's been a lot of reform in fiscal policy which the IMF has supported with visiting experts. In the monetary area there's been a move away from the administrative system - certain interest rates for certain sectors. Now they only have a maximum lending and a minimum deposit rate. The negative list has now been abolished: every good with the exception of the usual - drugs and firearms - is available at the auction. Investment will be the key mobilising domestic resources and foreign technology and resources. The current account and balance of payments deficits remains too large and the consumption needs of Ethiopia are too great to rely on domestic savings. It's almost a choice between mobilising foreign investment and having some growth or saying we are satisfied with less foreign investment and this means capital-output ratios therefore have less growth. The lesson is clear: whatever strings it comes with or whatever attachments a government puts on investors, the more foreign investment, the more liberalisation, the more growth.

7. Peter Semkin, Resident Representative, UNDP.

The Derg attempted to intervene in the rural economy using a number of mechanisms, most importantly land reform but also in developing state farms and in resettlement schemes. And of course they also tried to regulate the market for grain. The current government has not reversed land reform and is hoping that an alternative to peasant or subsistence farming can be developed alongside it, by opening up so-called "virgin lands". What is your view of the agricultural strategies of the two governments?

A lot of the resettlement schemes and state farms were ecological disasters. They were done without any proper surveys. They cleared vast areas of forest and ten years later abandoned them because they weren't very productive areas anyway. Price controls were a disaster. Compulsory selling of crops to state-owned enterprises was a disaster. A lot of these decisions were political or military decisions. Simple military solutions to very complex development problems. But farmers did respond to land reform. This is something that couldn't go back now. However I think there is a need for commercial farming without which it's difficult to see how Ethiopia can ever get into the export market.

State ownership of land hinders agricultural development. Farmers don't have security. They can't use the land as collateral for credit. They don't attend to soil conservation, forestry etc. I think that would change radically if people owned their own land. The valid concern of the government is that they don't want to create a class of landless people. But the farmers have to feel secure and that they will be compensated for any improvements if the land is taken away. This is a political decision. The ownership of land per se doesn't matter. It's the security. But if you take Kenya as an example, Kenya produces sixty per cent more per acre than

Ethiopia does not have the same quality of land. That has something to do with inputs and infrastructure. There is no virgin land. It's a myth. An absolute pipe-dream. It doesn't exist. There is no cultivatable land that isn't being cultivated. There's a lot of very fragile land which if it were brought under cultivation would become desert very quickly. Irrigating land also is a complex matter. It requires a very high degree of technology which on the whole doesn't exist. Land can be quickly ruined through irrigation without proper draining, turning it into a saline desert - as they have done with millions of acres in Mozambique; and here - a lot of the lower Awash is destroyed. We've advised the government to improve production on existing land by improved seeds, technologies and soil conservation.

The EPRDF's regional policy has attracted a great deal of interest, and criticism. The government's intention is that the division of the country into linguistic regions is the first stage in devolving power away from the centre. What is your assessment of the impact of this policy?

Ethiopia has always been very centrally governed. It's a vast country. Communications are very poor, so the central government doesn't have much impact one way or another on the lives of the majority of people. The policy of this government is to try and take policy - making down to the village level. Nobody can disagree with that. An essential part of that process is to devolve authority and decision - making capacity down to the regions. That is very ambitious and very difficult to achieve. A lot of the regional staff are still very inexperienced. It's amazing how well it has worked in such a short period. It needs a lot more to consolidate it. Politically there are pros and cons, but the big plus is that it's a recognition that the various peoples of Ethiopia should be a voluntary federation. There's been a huge debate about the right of each region to secede. I think that's a

very interesting clause in the Constitution. The fact that security has improved in this country is directly linked to the regional delegation of authority over, say, the police force and the control of law and order. However it has polarised people. It is much more evident now that whether people are Amharas, or Oromos, or Somalis is an important factor. A lot of Ethiopians feel that the Ethiopian nationality has been effected by that, and that is why they feel that it is a harmful process. The regions themselves aren't homogenous. They're very different. The main difference is a linguistic one.

8. Arlene Jacquette, USIS Public Affairs Office.

Ethiopia has a long-standing relationship with America which dates back to the post-war period when America supported Ethiopia's claim on Eritrea. A US base was set up at Kagnew in Eritrea and this formed the cornerstone of an alliance which supplied Haile Selassie's government with substantial military aid and support. When the Derg seized power in 1974 there was speculation that Ethiopia might continue to orientate its' foreign policy towards America. Then in 1977 at the time of the Somali invasion of the Ogaden, Ethiopia reversed its alliance and went over to the Soviet camp. What were relations like between the two countries in the period from 1974 to 1977 and what was America's stance on Ethiopia and the Horn in the period from then until 1991?

Until 1974 this was a very large operation, a real regional centre for a lot of US operations. The way Nairobi is for us now. Shortly after 1974 relations became tense. Teaching at Addis Ababa university and the Peace Corp continued but with difficulty. The level of student leftist activity was pretty anti-western, pretty anti-American. Between 1974 and 1977 the US government was still here, in a fairly big way, we had for example two very large cultural centres, one in Addis Ababa and one in Asmara. In April 1977 we were given four days to leave the country. We had to close down the cultural projects and the military was asked to leave at the same time. There was a very substantial military presence in Addis Ababa and in Asmara. After 1976 the Carter administration obviously had concerns. Between 1977 and 1991 we were here in a substantial way, not in numbers of people but through an aid programme, primarily food aid channelled through the Relief and Rehabilitation Commission. Relations were tense. Any kind of mutual dialogue with government officials was very difficult. They just were not accessible. Things got warmer in the

late 80's. Ethiopia was interested in having an Ambassador here. We didn't go back to Ambassador 'til '90 or '91.

The military presence was larger than Kagnev, but Kagnev was the original interest in Ethiopia because of its strategic position going out towards the Gulf. The Military Advisory Assistance Group (MAAG) which supports training, supply and maintenance of military materiel was in Addis Ababa.

Kagnev became less important as a communications centre as technology changed. Obviously we were still concerned about the Persian Gulf, and the war in Iraq-Iran. Our interests in the Horn were very strong, hence all this attention to Somalia. So I think even in the late '80's stability in the Horn was a major factor in our policy. Even at that time we were concerned that these countries remain stable and not go to war with each other. We wanted a kind of balance. In '91 our embassy was overrun in Somalia so there was a lot of concern about what was going on in Somalia. Which of course made us look at what was going on here in terms of relations. If there were openings then we really had to be attentive to them. Our concern was that countries not dissolve, as they have, into total chaos or that they are not preying on each other, because that leaves them open to other kinds of intervention. The Cold War was still going on then. By 1990 there was less concern about what the Soviets could do. Since then our position has been that there are countries within a region that can cause havoc, through wars, through refugees, through Islamic fundamentalism. These kind of things can come across these borders and cause problems in these countries. The Horn is still fairly important. You still have that big oil mass in the Persian Gulf. It's a question of protecting Red Sea trade. Our greatest concern is any kind of relationship that would encourage a renegade regime to destabilise the region.

During the Derg period Ethiopia was not in America's development budget. Since the EPRDF came to power they have attracted a substantial degree of financial support from a range of new donors, including America. However, Ethiopia's change of government coincided with the end of the Cold War which itself generated new demands on America's aid budget. There is a perception that African countries in general have lost their strategic importance with the end of the Cold War and that international attention is focussed on the new states that have emerged in Central and Eastern Europe.

Eastern Europe, the former USSR, the Pacific Rim, and Central Europe have taken a lot of peoples' attention. Since the Soviet Union collapsed Africans have said, "we're being even more marginalised". In absolute terms that's probably not the case. Our budget in Africa has probably gone up, and we have put a lot of money into South Africa. But Africa's share of the total budget has dropped. We have twenty countries on the edge of Europe that we are concerned about for economic and political stability. We came up with a lot of new money for those countries. There are very strong East European lobbies in the US. In 1991/92 there was tremendous Congressional pressure to do something in Eastern Europe, to do this massive Human Resource Marshall Plan in two years. The pressure was enormous and the amount of money was amazing. Some of it new money, some had to come from other places. I think Africa has a lot of very articulate defenders in Washington. Their numbers are smaller and they have not realised how to manage their business with Washington, they haven't been terribly aggressive. The transition in South Africa has been very significant, and South Africa wants to work within Africa, and not be an outpost of Europe. If that is sustained it will be very important for Africa in terms of US policy and US attention.

In Ethiopia we're working on a number of development projects. The government has signed a US\$80 million seven year project to support basic education. A seven year essential services health project which would cost about US\$70 million is nearly ready to be signed. In addition to a big agricultural project which is now being developed, US\$11 million over five years has been agreed for various democracy and governance projects. The biggest commitment is in money given to NGOs for Food For Work projects and other relief projects. That's facing problems in Congress now, and how much it's going to continue next year is questionable. In per capita terms it certainly isn't the biggest in Africa but in absolute terms it may be the second largest programme after South Africa. Congress is very interested in the Greater Horn Initiative which isn't a lot of money but an attempt to use resources to create self-capacity, removing the need for emergency intervention. The opposition says that means that the US are in bed with the EPRDF but in fact it's saying that we have a certain confidence in this government: that things will stabilise. There's no question that our policy is supportive of measures which the Ethiopian government has taken over the last couple of years. We're not completely happy with certain things: the time lag in implementing certain things, particularly privatisation.

## Appendix two

In November 1991 the Transitional Government published its Economic Policy During the Transitional Period. This document is interesting for three reasons.

Firstly, it suggests that the EPRDF had arrived at a coherent approach to economic policy before taking power. Secondly, while being a document to guide policy during the transition period, it is intended to be used with only minor amendments as the basis of economic policy after the transition. Thirdly, it gives a clear indication of the government's stance on development, the respective roles of the state and of private capital, the roles of domestic and foreign capital, and the strategy for agricultural development.

The document is in two parts, the first part is a general discussion on the character of the Ethiopian economy and the causes of the current economic crisis. The second part sets out the transitional economic policy in 12 sections. It begins with a statement of general intent to limit the role of the state, promote private investment and public involvement in development, to access external resources and to involve regional organisations in economic management. This section concludes with a set of macro-economic policies relating to finance, labour, population, and technology. Section 1.3 on "Public involvement in development" and section 1.5 on national and regional involvement both stress the perceived importance of local initiatives in securing development and probably reflects the experience of the TPLF in implementing development strategies in Tigray during the war (see chapter six). Section 1.4 on external resources is indicative of the continuing and increasing dependence on external resources (see chapter four). The next seven sections deal with sectoral economic policy. i.e. agriculture, industry, trade, fiscal, transport and communications, mining and urban development. The last four sections deal with

miscellaneous items including setting the limits of goals for the transitional period. It is noted in this section that, “. . . since the policy is intended to serve not only the period of transition but also a longer period with minor changes, and since the coverage of the policy is broad, it is essential to clearly spell out the objectives that can be realized during the transition period” (TGE, 1991:45). The priority goals which it sets out are the rehabilitation of the drought regions and former war zones; completing on-going projects; some infrastructural development; and research on problems arising from the economic policy, including the likely increase in unemployment. The document concludes with a demand that

In order to attain our cherished goals and aspirations, we should be able to promote and develop a strong sense of duty, unflinching dedication to serve our country and people, and a maximum determination to discharge our responsibilities within the framework of democratic principles (TGE, 1991:48).

Reproduced below are the sectoral strategies for agriculture, industry and trade set out in sections 2,3, and 4 of part two of the document. The following points are of particular interest:

1. The document proposes that the question of land ownership should be determined by referendum. While land ownership was one of the two issues which dominated the election campaign, the idea of a referendum has apparently been discarded.
2. The Resettlement and Villagisation programmes which have been heavily criticised in the past by the EPRDF, as well as by less partisan observers, is resurrected here, albeit not until “...conditions are ripe for such programmes” (TGE, 1991:23). The repatriation of people in existing resettlement schemes is to be discouraged.

3. The possibility of developing land in uninhabited areas, which I discussed in chapter two, is raised (section 2.2.1.1), as is the dismantling of state farms (2.2.2.1).

4. The TGE's intention to retain state ownership of key establishments and to determine which areas will be left to private investment, and its intention to discriminate in favour of domestic capital are discussed in section 3 (3.1.1. and 3.2.2). In domestic trade, while the government's intention is to increase the role of domestic private capital, it will retain its role in the wholesale trade of "basic goods of mass consumption" and attempt to regulate price and supply (section 4.1). Although the state will end its monopoly on foreign trade (which in any case was hardly complete under the Derg (see chapter three), it will play a significant part in trade and in regulating trade policy and foreign exchange.

Extracts from Ethiopia's Economic Policy During the Transitional Period (TGE, 1991)

## B. The Transitional Economic Policy

### 1. General

With the above [part one] as a background, [the] following are policies that encompass the economy.

#### 1.1 Changing the Role of the State in the Economy

It is evident that in the past state control over the entire economy was the major cause of economic decline. Therefore, in order to embark on economic recovery, it is essential to change the role of the state. To this effect, the role of the state in the economy will be:

1. 1. 1 To design economic policies and map out economic development strategies; to promulgate laws and regulations that foster economic development;

1.1.2 To participate directly or through joint venture arrangements in activities that

are considered essential and in which the private sector is not willing to participate;

1.1.3 To design, implement and supervise the expansion of infrastructure, research and development, manpower training, etc. as a basis for economic expansion;

1.1.4 To create enabling conditions that will encourage private capital participation and expansion and for popular participation;

1. 1.5 To protect consumers and producers against price fluctuations and take regulatory measures to prevent shortages of basic commodities.

## 1.2 To Promote Private Investment

One major hindrance to economic development in the past was the restrictive policies imposed on the activities of the private sector. Without changes in the policy, efforts to realize economic recovery would be futile. Therefore, in order to encourage private capital participation, the state will:

1.2.1 Create enabling conditions for the participation of both domestic and foreign private capital in various economic activities without any capital limitation;

1.2.2 Remove all existing bureaucratic procedures and red-tape and introduce new laws and regulations and enforce them to enhance domestic and foreign private capital participation;

1.2.3 Provide incentives and encouragements to promote domestic capital participation; encourage a wider participation of private foreign capital. The state will work out a comprehensive package of incentives for domestic and foreign private capital participation;

1.2.4 Provide special encouragements to communities participating in economic development free from state interference.

## 1.3 To Promote Public Involvement in Development

In order to achieve immediate and durable results in economic reconstruction and for

sustainable growth, it is essential to enlist popular participation. Hence, appropriate recognition must be accorded to the decisive role the public can play in national economic reconstruction and development. The policy of centralization adopted by the previous government prevented the participation of local government organs and the public from formulating and implementing economic policies. Without voluntary popular participation and initiative, it is utterly impossible to solve the economic problems that lie ahead of us.

It is, therefore, imperative that the public as a whole should be involved in discussions on the Transitional Economic Policy and be encouraged to undertake development-oriented activities free from state interference. Local administrative organs must be given the opportunity to play a greater role in the implementation of the economic policy as well as relief and rehabilitation programmes. It should be noted that the participation of the public should not, as in the past, be on the basis of compulsion, or in a manner which is contrary to their interests or against their beliefs.

#### 1.4 To Mobilize External Resources

In order to achieve the objectives of the Transitional Economic Policy in accordance with the Charter, the Government will have to secure substantial external resources and channel them effectively for economic reconstruction in a coordinated manner. To this end, securing external support will be a major aspect of the country's foreign policy objectives.

#### 1.5 To Involve National and Regional Administrative Organs in Economic Management

Since national and regional administrative organs are the machineries for popular participation through democratic elections, they will have the right over the ownership and management of resources. The state will issue detailed policies

defining relationships between national and regional administrative organs and with the Central Transitional Government regarding the ownership of resources and on regional economic responsibilities.

#### 1.6 To Prepare Macro-economic Policies Consistent with the New Economic Policy

In the past, macro-economic policies were designed to serve the defunct system and are inconsistent with the new economic policy. Therefore, they have to be revised, and in some cases new policies have to be issued, in order to ensure consistency with the new economic policy. Among these are:

1.6.1 Policies, laws and regulations regarding money supply, credit and interest, taxes and investment that are consistent with the new economic policy, that encourage private sector participation, and that facilitate and encourage existing economic establishments to operate efficiently;

1.6.2 A new labour law that is consistent with the new economic policy, that promotes productivity and efficiency while at the same time protecting the rights of workers;

1.6.3 A population policy which ensures a balance between rates of population and economic growth;

1.6.4 A technology policy to ensure the development of all sectors as a basis for sustained growth.

## 2. Agricultural Policy During the Transition

### 2.1 Giving Priority to Peasant Agriculture:

Agriculture constitutes the foundation of the country's economy and will play a decisive role for economic recovery. The peasant sub-sector occupies the overwhelming majority of the population and is also a major source of agricultural output. While peasant agriculture is more responsive to reforms, agriculture in

general, faces complex problems and requires unreserved efforts for its development.

### 2.1.1 On the Ownership of Land

There are different views and approaches to rehabilitate and develop peasant agriculture. In recognition of the political and economic problems of land ownership, including the sale and mortgage of land, there is, on the one hand, the view that rural land should remain under state ownership with guaranteed use right, while on the other hand, there is the view that unless land is sold and exchanged the peasant would not be ensured of full guarantees to work his land to capacity. Therefore, until the issue is settled by a referendum after the transition period, there will be no changes in the policy of public ownership of land. However, the following measures have to be taken:

2.1.1.1 Assist peasants, when questions arise, to correct the previous discriminatory allocation of land by reallocating land to the landless without discrimination. There will be no further fragmentation of current land holdings;

2.1.1.2 While preventing the sale and mortgage of land, ensure the right of peasants to lease land, to pass it on to [their] kin, to freely sell their produce and hire labour, and to be compensated fully when expropriated.

### 2.1.2 Access to Free Market

In order to increase output and productivity, the peasant will have the right to sell his produce at places of his choice and at competitive prices. The state will play a regulatory role to prevent the harmful effects of price fluctuations on producers and consumers alike by buying and selling grains on the open market. A fair system of taxation will replace the cumbersome tax structure and improvements will be made in the system of collection.

### 2.1.3 Providing Special Support to Peasant Farming

Although incentives to peasants as outlined above would have a positive impact for increasing output, the broad objectives of rapidly rehabilitating and developing Ethiopia's agriculture cannot be attained unless special measures are taken to provide it with expanded state support. Thus, the state will allocate a greater share of the budgetary and manpower resources to the rehabilitation and expansion of peasant agriculture.

The state will extend all-round support to farmers for building feeder roads, helping the peasants in obtaining fair prices for their produces, promoting an extensive distribution and use of fertilizers, improved seeds and the provision of agricultural extension services.

### 2.1.4 Areas with Special Problems

The policies indicated earlier are appropriate for developing peasant agriculture as a whole. Nevertheless, it should be pointed out that due to the existence of different agro-ecological zones in the country and population density, the potentialities of land differ from locality to locality and from region to region. Parts of the northern region and some pockets in the southern region are characterized by problems such as shortages of land, recurrent drought and soil erosion. In addition, there are nomadic regions where shifting cultivation is practised. Past policies were designed in such a way as to restrict the freedom of the nomadic population to use traditional grazing areas. The policy did not help them lead a sedentary life. Unless special measures appropriate to local conditions are taken, these areas may soon face uncontrollable problems. It is, therefore, essential to issue policies based on studies in order to alleviate the particular problems of these regions. Starting during the period of transition, agricultural activities in these regions must go hand in hand with soil and

water conservation along with the development of programmes in industry mining, energy and construction in an integrated manner.

### 2.1.5 Resettlement and Villagization Programmes

In the past resettlement programmes were known to have faced fundamental political and economic problems and must be discontinued. Although voluntary resettlements which do not create conflicts between settlers and the local population would have to be carried out in the context of an agricultural development programme to relieve shortages of land and population density, they would have to be discontinued during the period of transition until conditions are ripe for such programmes.

In regard to established settlement areas, efforts will be made to promote goodwill and cooperation between settlers and the local population. While it should be made clear to such settlers that returning to their original areas would create its own problems, specially those from drought affected areas and from places where arable land is scarce and where rehabilitation is a problem, those who wish to return will be free to do so.

On the other hand, efforts will be made to promote good relations between settlers who decide to stay on and the local population so as to enhance a climate of harmony and self-reliance in settlement areas. Assistance will be extended to settlers to make them self-reliant and there will be a gradual reduction of public expenditure on resettlement.

Villagization programmes in the past were not based on proper studies. They were used as political instruments and should be stoped. Future programmes will be undertaken on the basis of the free will of the people, after having created the necessary conditions first, especially infrastructural facilities. Where villagers want to continue in already established areas, conditions must be created for them to

become gradually self-reliant.

## 2.2 Expanding Modern Farms

Although priority will be given to the development of peasant agriculture large-scale modern farming should by no means be ignored.

### 2.2.1 Expanding Modern Private Farms

The decisive role of private capital for the expansion and development of large-scale modern farming should be recognized. In order to encourage domestic and foreign private capital, without any capital limitation, the state will create enabling conditions and will, to this effect

2.2.1.1 Provide fertile lands in uninhabited areas on concessionary bases and provide full guarantees to private entrepreneurs, either individually or on a joint venture basis;

2.2.1.2 Open and fertile lands will be made available to private investors after ascertaining first that this will not result in evictions or affect the interests of peasants and nomads as well as those who practice shifting cultivation;

2.2.1.3 Provide incentives in the form of access to bank credit, tax benefits, etc. to encourage the participation of private capital in modern farming; priority will be given to domestic investors unless an undertaking is beyond their capacity:

2.2.1.4 Create enabling conditions for the expansion of modern private farming by expanding infrastructure such as roads, health facilities, etc.;

### 2.2.2 Reducing the Role of State Farms

State farms will not be allowed to continue as they are. Investigations will be made into the financial and managerial problems that have rendered them unprofitable with the objective of finding solutions to them.

2.2.2.1 On the basis of investigations, unprofitable state farms will be handed over

to those around the farms or to workers employed on them provided this measure does not lead to conflicts with the nearby populations. If this is not possible, state farms will be turned over to private investors on a concessionary basis or the assets on them will be sold and the land returned to the people;

2.2.2.2 Parallel measures would have to be taken for providing employment opportunities or other forms of assistance to the redundant labour force, since the closure or sale of state farms will create large numbers of displaced workers;

2.2.2.3 When necessary, the state may operate those state farms that are strategic to the economy jointly with domestic or foreign private capital.

### 2.3 Giving Priority to the Conservation and Development of Natural Resources

The conservation, development and utilization of natural resources which are currently in a debilitated state have a major impact on the country's overall economic development. Priority will be given to the conservation and development of forestry and livestock resources, soil and water conservation which were, and still continue to be, utilised wastefully.

2.3.1 Issue policies for the conservation and development of forest resources and in order to prevent deforestation with the direct involvement of the public; issue and enforce policies for land use and wildlife preservation;

2.3.2 In order to exploit the country's large livestock potential, policies will be issued with a view to preventing the improper utilization of this resource on the one hand and by guaranteeing its efficient utilization by private capital on the other;

2.3.3 In order to minimize the effects of recurrent drought, issue soil and water conservation policies which will prevent land degradation, for improving the livelihood of the peasantry and to establish a basis for sustained economic development

2.3.4 In order to implement these policies, the state will promote direct participation by the public, encourage research activities and promote a wider use of modern agricultural inputs.

2.4 Since the participation of peasants is essential for implementing the agricultural policy, the state will design strategies for the formation of cooperatives on a voluntary basis.

### 3. Industrial Policy During the Transition

#### 3.1 Limiting the Role of the State and Reforming Enterprises

##### 3.1.1 Defining the Role of the State

State ownership of industry will be limited to a selected number of key establishments that are essential for the development of the economy. The state will play a constructive role in stimulating growth with greater participation of the private sector.

3.1.1.1 Industries under state ownership will be large-scale engineering and metallurgical plants, large-scale fertilizer and pharmaceutical plants and industries which supply strategic raw materials to major chemical industries. The state will issue laws based on detailed studies regarding the ownership and management of such industries.

3.1.1.2 The state will operate such plants as sole owner or on joint venture arrangements with domestic or foreign entrepreneurs when necessary. Industries which do not fall under the above category will be in private hands with no limits on capital.

3.1.1.3 Parallel measures will be taken to minimise problems of unemployment resulting from privatization; to this end it will be ensured that privatization is carried out gradually.

3.1.1.4. Privatize industrial enterprises which the state cannot operate profitably and retain those that it can run profitably as a source of revenue.

### 3.1.2 Reform of Public Enterprises

Limiting state participation in industry does not in itself create the requisite conditions for a satisfactory development of the sector. Reform of public enterprises is also essential. Industrial enterprises under state ownership or those run in partnership with private capital would have full autonomy with opportunities for operational flexibility and efficiency. To prevent delays in decision making through a chain of organizational layers, decisions will be made at plant levels.

The introduction of managerial autonomy should be carried out in tandem with measures designed to alleviate problems of unemployment. In order to eliminate rampant bribery, theft and inefficiency as well as to provide incentives to workers and promote management worker relations, labour should have a third of the voting right through representation on enterprise management boards. Furthermore, state enterprises should operate in accordance with the criteria of profitability in a competitive environment. They should be treated like any private enterprise without favours and privileges whatsoever.

### 3.2 Fostering Private Capital Participation

During the transition and thereafter, encouraging extensive participation of private capital is the only way of stimulating industrial development. Consequently, policies should be formulated, and appropriate measures taken, to attract the private sector for a wider participation in industry.

#### 3.2.1 Giving Adequate Guarantees to Private Capital

The private sector should be allowed to participate in industrial development without any capital limits and with guarantees of ownership. Furthermore, it is necessary to

induce domestic investors in particular to participate extensively in manufacturing. Adequate incentive systems should be put in place with the aim to stimulate confidence and to ensure that private investors operate profitably.

### 3.2.2 Accord Special Attention and Support to Domestic Private Capital

Policy measures aimed at attracting private capital participation in industry should take into consideration both domestic and external private capital. Foreign investors will be encouraged to undertake activities in ways that will contribute to the country's economic growth and promote national interest. Foreign investors can engage themselves in those activities in which the state or domestic investors are, for one reason or another, unable to invest. They should play an important role in introducing modern technology in regard to which they should be given adequate guarantees and incentives.

It must also be emphasized that domestic capital should be given priority over foreign capital. Domestic investors should always receive preferential treatment unless it is established that a given activity is beyond their capacity. The state should provide additional inducements to domestic investors.

3.2.3 In conjunction with the encouragement of private capital, cottage industries should be accorded special attention. Since cottage industries provide employment opportunities and since their products are priced low and are essential to the peasant sector, etc. such domestic-resource based industries should be given adequate encouragement.

3.3 Appropriate policies will be issued to foster industries in the health sector.

3.4 Pursue an industrialization strategy that will strengthen linkages with agriculture and that promotes the utilization of domestic raw materials.

## 4. Trade Policy During the Transition

## 4.1 Domestic Trade

### 4.1.1 Limiting the Role of the State in Wholesale Trade and Expanding the Role of Private Capital

The state cannot exercise full control over wholesale trade and continue to manage enterprises engaging themselves in wholesale trade in a manner that will benefit the public. Gradually, therefore, corrective measures should be taken along the following lines.

4. 1. 1.1 Pave the way for domestic private capital to play the dominant role in wholesale trade;

4.1.1.2 Issue laws and policies to regulate private sector wholesale trade practices and enforce them;

4.1.1.3 In order to stabilize prices the state may engage itself in the wholesale trade of basic goods of mass consumption. Such operations will be in the public interest and will be based on the principle of profitability.

4.1.2 Since the state cannot run retail trade efficiently, appropriate measures will be taken to phase out the role of the state and to create the necessary conditions for private capital and cooperatives to freely engage themselves in such activities.

4.1.3 Problems of inflation, scarcity of goods and related problems cannot be solved merely by controlling prices, but rather by increasing the production of goods in short supply and ensuring their even distribution. Therefore, the major role of the state in retail trade will be to issue appropriate regulations and directives and to enforce them. In order to alleviate problems during emergencies, the state may introduce directives and controls.

### 4.1.4 Give Special Attention to the Development of Tourism

Since tourism provides a vital support to the economy, it should be given special

attention. Therefore, conditions will be created for its expansion and growth with private capital participation. Appropriate regulations and directives will be issued to this end. Private entrepreneurs will be encouraged to develop tourist services. State and private tour operators will function side by side. The state will handle the foreign exchange earned from tourism so as to ensure its proper utilization.

#### 4.1.5 Private Capital to Play the Dominant Role In the Service Sector

Because of its nature, trade in other services will be more efficient if carried out by private entrepreneurs. Therefore, the state will take appropriate measures for private participation individually or through partnerships. When necessary, the state may intervene in limited areas jointly with domestic or foreign investors.

### 4.2 Foreign Trade

#### 4.2.1 Ensuring Adequate Private Capital Participation in Foreign Trade

The state will end its monopoly over foreign trade, and instead, limit its control to areas that cut across sectors, in consideration of the problems that may be encountered if left to private capital. Such areas will be studied and defined by law. In addition, the state will regulate foreign trade by issuing foreign exchange and import-export regulations as well as by supervising their proper implementation.

#### 4.2.2 Promotion of Foreign Trade and Prudent Utilization of Foreign Exchange

Since one of the objectives of foreign trade policy is to increase foreign exchange earnings, which is crucial for the country's economic development, it should be given special attention. The problem should be designed in such a way as to provide incentives to exporters, replacing the existing quantitative restrictions with tariffs and encouraging investment in export-oriented undertakings. To this end, the state will provide fiscal incentives, minimize bureaucratic procedures and promote the use of trade information.

4.2.2.1 Considering the importance of foreign exchange to the economy and its acute shortage, the state will ensure prudent utilization and allocation of foreign exchange. Consequently, exporters would have to surrender all their foreign exchange earnings to the state in exchange for local currency. However, the state will allow exporters a certain portion of their earnings to expand their businesses, the specific amounts being determined on a case-by-case basis;

4.2.2.2 Although the foreign trade policy is designed to substantially increase the volume of foreign trade, the problems are diverse and complex and call for various coordinated actions. It is essential to increase and diversify exports, to ease foreign currency shortages and administrative inefficiencies and minimize the problem of illicit trade.

4.3 In the process of implementing the new trade policy, which will involve the closure and reorganization of state enterprises, it would be necessary to take advance measures to avoid disruptions and ensure the continuation of adequate distribution systems. Therefore, implementation of the policy will be a gradual process and will be undertaken after studying its consequences.