RESEARCH 1 | ONDERZOEK 1

Ethiopia and Thailand: A comparative Study

Research for the Ministry of Foreign Affairs of the Netherlands : *Tracking Development*

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Introduction

The development records of Thailand and Ethiopia seem to have nothing in common. Whereas Thailand comes close to being one of the Asian Tigers and seems to be progressing rapidly on a track of industrialization and incorporation in the modern world, Ethiopia is the typical example of an impoverished African nation, albeit not one with a hampering colonial legacy. In this paper the recent economic history of the two states shall none the less be compared in the hope of gaining valuable insights about whether these preconceptions hold and how the two nations have gotten onto their separate trajectories to growth.

This paper is part of the Tracking Development project commissioned by the Dutch Ministry of Foreign Affairs and as such it aims at policy relevant conclusions. The core of Tracking Development is a large scale side-by-side comparative investigation of South-East Asian and Sub-Saharan African countries. A close examination shall be given to different development policies in both countries to identify which succeeded in their goals and why, and vice versa which failed and why. In this way we hope to gain knowledge which might influence future policy initiatives by the Dutch Ministry of Foreign Affairs in its capacity of development cooperator.

The framework that will be used in this paper to investigate the growth (or stand-still) of both countries is that of the Tracking Development project at large. Three sets of policy initiatives are hypothesized to be crucial in the rapid and ongoing development of Asian countries, and the lack of these policies to be decisive in the relative standstill of African countries. These policies are: first, macro-economic stabilization; second, a set of policies aimed at improving life in the rural sector, increasing agricultural productivity and an ample supply of food; and third, liberalization of the economy granting economic freedom, especially to small actors.

It seems that in all instances of Asian states that seemed to be destined for a place in the margins of the world economy in the early second half of the century (such as Indonesia under Sukarno or war-torn Vietnam) macro-economic stabilization played a central role in the return to growth. The main goal of policies aimed at macroeconomic stabilization is minimizing the effect of shocks. Unless policymakers use monetary and fiscal policy to stabilize the economy, these shocks will lead to unnecessary and inefficient fluctuations in output, unemployment and inflation. This would of course have a negative effect on economic development in general. Macroeconomic stability can be measured through the following criteria: low and stable inflation, low long-term interest rates,[1] low national debt relative to GDP, low deficits, and currency stability. These criteria are universal and are used, amongst others, by the IMF and the EU. In this paper, the criteria will be used to analyze to what extent the macro economies of Ethiopia and Thailand can be described as stable. It is hypothesized that stable macro-economic conditions are a necessary precondition for economic growth and poverty reduction, but not sufficient.

In both Sub-Saharan Africa and Southeast Asia the majority of the population lives or lived in rural areas and the main source of income in these areas is agricultural activity. The poor also tend to be disproportionately concentrated in these areas. An obvious way towards poverty reduction is raising farm incomes through increasing agricultural output and pro-rural spending. In Sub-Saharan African countries agricultural output is generally erratic and dictated by weather patterns and intense government interference, whereas in Southeast Asia government policies focused mainly on import substitution and diversification.

Economic freedom is understood in contrast to full government control over the economy, which has been associated with crises in growth, such as in most communist countries during the Cold War. The Washington consensus (minimal state intervention will lead to economic growth) is not supported; in almost all Southeast Asian countries there has been state intervention on agricultural markets. These interventions where limited to operation alongside independent actors instead of supplanting them. Crises follow when individual farmers have no freedom to choose preferred crops and selling outlets.

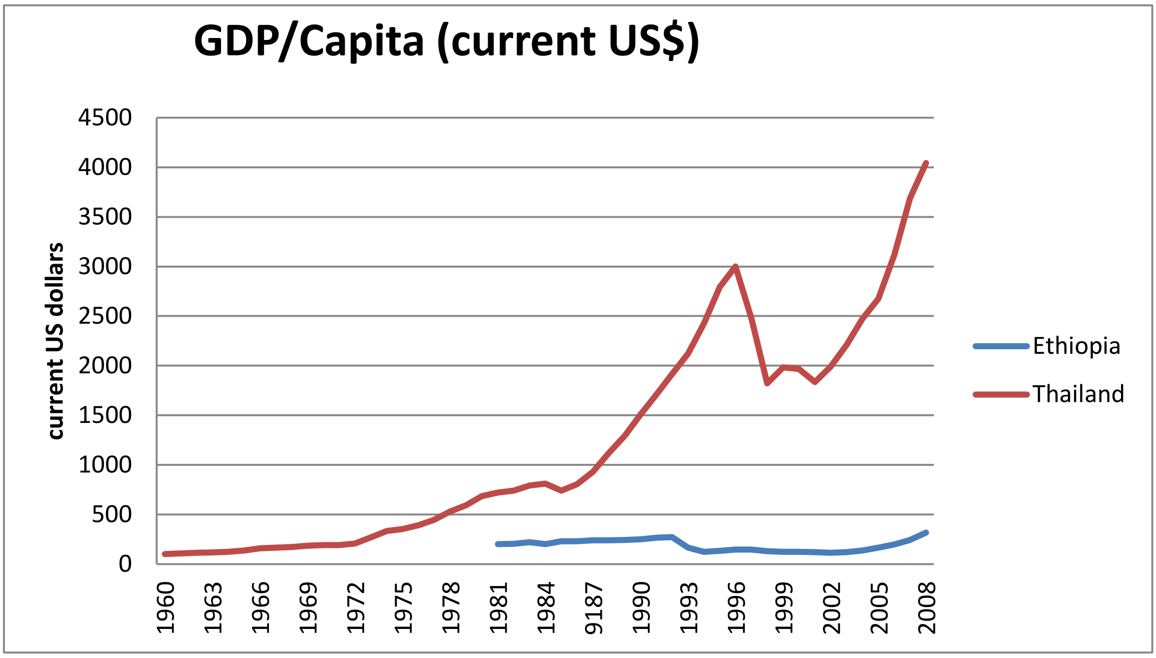
In order to identify successful policies, narratives of two countries (in this case Ethiopia and Thailand) shall be set up, with a focus on discovering positive and negative turning points. These turning points are associated with two development indicators: economic growth and poverty reduction. When these are found, policies shall be identified which are responsible for these turning points. By comparing turning points and policies between the two countries, we hope to gain general insights in development.

The first two chapters will be concerned with the narratives of Ethiopia and Thailand. First Ethiopia will be discussed in three parts: a section dealing with the Selassie period, then a section concerned with the communist Derg period, and finally a section about developments since the fall of the Derg regime. The economic development of Thailand will be discussed in a chapter with sections based on decennia.

The third chapter will compare different developments and policies from these narratives side by side. This chapter is divided in three sections: first, a section devoted to macro-economic stability in both countries; then a section dedicated to a thematic comparison of economic freedom in Ethiopia and Thailand; and finally, a section concerning rural (or urban) bias in government policies.

In the conclusion turning points in both countries will be compared and an assessment of the theory will be given based on all previous chapters and information. This chapter will be the most policy relevant part of this paper as it will include information on how positive (and negative) turning points were created.

The creation of this paper, and especially the sections on the earlier periods in Ethiopia, has been hampered by a lack of statistical and economic data. This has necessitated a deviation from the usual approach in the Tracking Development project where the focus in identifying turning points is on quantitative data instead of qualitative data, to which is resorted in this paper from time to time. On the following page two graphs illustrating GDP/per capita and life expectancy (based on date from the world bank) are included for the convenience of the reader.


GDP/Capita (current US$)
current US dollars
4500
4000
3500
3000
2500
2000
1500
1000
500
0
1960
1963
1966
1969
1972
1975
1978
1981
1984
9187
1990
1993
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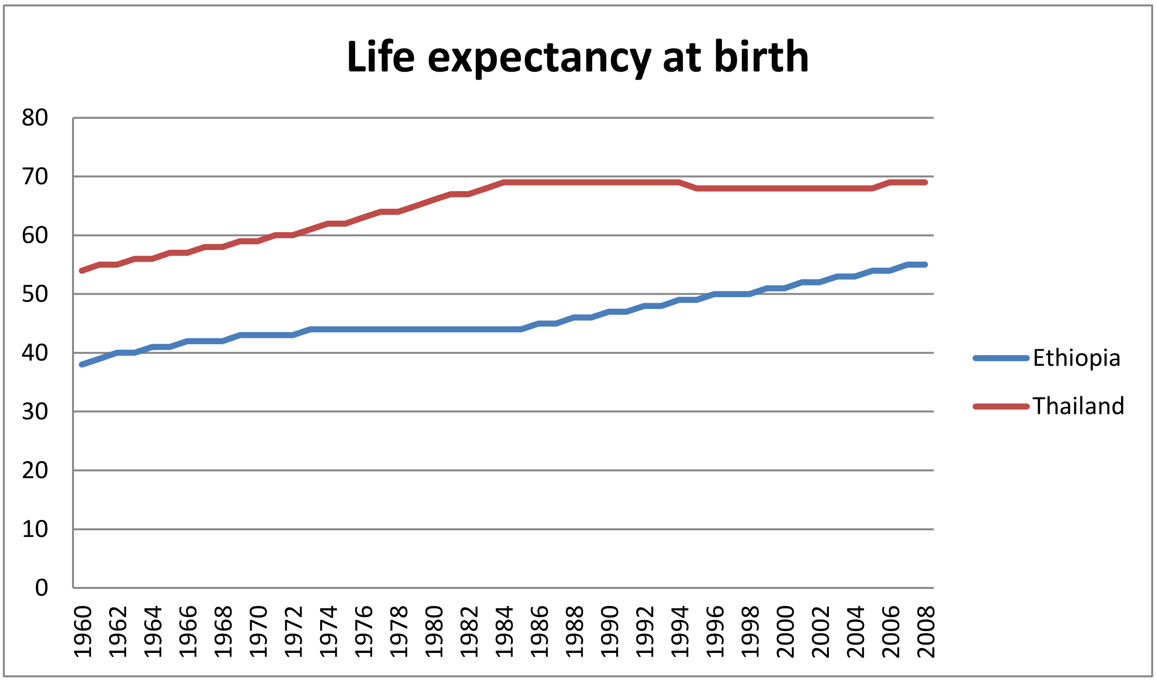
1999
2002
2005
2008
Ethiopia
Thailand


Life expectancy at birth
80
70
60
50
40
30
20
10
0
1960
1962
1964
1966
1968
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
Ethiopia
Thailand

Ethiopia is one of the oldest countries in the world, and has practically always been independent, except during 1936-1941, when Mussolini invaded the country. Ethiopia's economy is based on agriculture, which accounts for 45% of GDP and 85% of employment. The sector has suffered from drought and poor cultivation practices. Currently, Ethiopia ranks 79th on the world's GDP (power purchasing parity) comparison list. Ethiopia's modern history is easily split into three parts: the Haile Selassi regime (1941-1974), the communist Derg period (1974-1991), and the post-communist period (1991-current). The turning points in the economy will be analyzed for these periods.

The Haile Selassie period, 1941-1974

The return of emperor Haile Selassie in 1941 after the Italian occupation meant a return to ancient structures of government in Ethiopia. Selassie was to be the last emperor in the house of Solomon, claiming direct ancestry from the biblical King David. He wished to transform Ethiopia from one of the world's least developed countries to a leader amongst nations and used his impressive international clout to this end extensively. Here, we will focus on internal matters of governmental concern, with a focus on Selassie's drive to a modern economy.

Structure of the Government and Land tenure

The structure of the government and the structure of land tenure were closely linked in Selassie's Ethiopia. The land tenure system was based around *gult* and *rest.*[3] The emperor was the master of all land and he could give out *gult* over land. *Gult* was given out in exchange for money or services, such as raising a regiment of soldiers, to the central government. *Rest* was the system by which farmers could rent land from the owners of *gult*. *Rest* was the right to use the land for whatever purposes the owner of rest wanted; usually this was some form of agriculture. Owners of *rest* would often pay the owners of *gult* a part of their produce as rent, but again services could also be used as payment.[4]

Gult was often used by the political elites to ensure the loyalty of tribes and was only rarely taken away from the owners, while *rest* often changed hands. This led to structural negligence of the land by the owners of the *rest* and extortion of high rents by the *gult*-holders. This situation left Ethiopia with the worst land productivity in the world.[5]

Essential in this system was the northern *amhari* tribe, which controlled much of the bureaucracy and thus the handing out of *gult*. Emperor Selassie wished to change the system, for it gave, in his eyes, too much power to the local bureaucracy and thus the *amhari*. The services and money from *gult* were the main state income, but not centrally organized. This left the central state weak in terms of power and with a constant shortage of tax income. Selassie tried restructuring the land tenure system, to the great dismay of the *amhari* and other local rulers, who vehemently and successfully opposed him.[6]

Five-Year Plans

The main driving force for economic development were, or should have been, the Five-Year Plans set in motion by the central government from 1958 onwards. In spite of the communist association that such a name elicits, they were liberal plans for developing the basic conditions needed for economic growth. Telling in this respect was the involvement of American government officials to help draw up the plans.[7] Note that most of these plans remained just that: plans. Reasons for their unsuccessful implementation will be discussed below.

The first Five-Year Plan comprised mainly infrastructural investments, such as the establishment of a vast network of paved roads, and the drive towards social conditions that would be beneficial to economic growth. Money was invested in the founding of schools and local medical facilities. Considerable effort was put into establishing advanced schools for various electrical and mechanical trades.[8]

The second Five-Year Plan, which ran from 1963 to 1967, was developed after an unsuccessful coup d'état in 1960. The coup was mainly driven by high ranking officials from Addis Ababa and never spread to the countryside, but Selassie felt that he needed the political support of the peasant masses now more than ever and that future coups might be prevented by economic reform, seeing how the coup was mainly concerned with economic issues and not with issues of governmental or constitutional reform.[9] Therefore, the second Five-Year Plan was primarily occupied with increasing output of the smallest farmers. Increased agricultural output was supposed to free up workers for industry and services, making them more independent from their landlords.

The third Five-Year Plan was supposed to turn the economy into a more modern, industrialized modus operandi. Investments were made in trying to increase cash crop output and setting up industries. All this was done with a view to improving the current account and the savings ratio. A higher savings ratio would lead to more investments and a cycle of savings and investments could hopefully be set up. A fourth Five-Year Plan was somewhat ironically cut short by the communist revolution of 1974.[10]

All three plans were hampered in their execution by much the same conditions. Firstly, the central government did not incorporate a large, professional class of coordinators and planners. This hindered the central allocation of resources to where they were most needed. A second feature that permanently left the central government struggling were the local branches of government and landlords who feared losing their privileged position within the system and could, exactly because they had a privileged position, intervene. Finally, resources were extremely scarce. Due to the weak central government and the land tenure system, the income from taxes was very low. Inflow of cash from foreign governments and aid organizations helped somewhat in filling the gap between what was needed and what was available, but still, ambitions were far too high too be realistically attainable.[11]

Macro-economy

Because of the reliance on subsistence farming saving levels were low (between 5.5 and 12.2 percent in the period under scrutiny)[12] in Ethiopia. Expenditure on defense was very high by contrast (over a quart of all government expenditure) due to the constant threat of civil war and neighboring countries,[13] further tying the government down. The taxation of subsistence farmers and nomadic tribes was problematic, leading to a reliance on the area around Addis Ababa for government income. In the private sector, the gap between savings and investments was often filled with foreign investment, mainly American.

The Ethiopian current account ran a deficit, but this was compensated by an inflow of direct investment and development aid, mostly American (about a third of all aid) and from the World Bank (also about a third).[14] The overall balance of payments was negative almost every year, but never worryingly so. It was positive twice, in 1958 and 1968. In 1974 the balance of payments collapsed due to a famine (which led to high imports of food and virtually no agricultural exports) and the oil crisis (see appendix for a graphical representation).

The stability of the economy was threatened by the nature of the major economic activity in Ethiopia, farming. Firstly, farmers were heavily reliant on rain based agriculture (less than 1% of all agricultural land was irrigated in 1974). This meant that food prices could be very volatile, spiking after dry years and plummeting after wet years. This also had its effects on the current account. Secondly, the major cash crop for export was coffee (50% or more of exports in the 1950s and 1960s), the price of which halved from 1950 to 1974, showing a temporary spike in the mid fifties (see appendix). Coffee farmers were also heavily reliant on rain for their harvest, further adding to the dependency on the weather for a positive current account.

The Communist Period, 1974-1991

From 1965 to 1973, the Ethiopian economy grew 3.9 percent annually, whereas population growth was 2.6%. Thus there was an increase in per capita income.[15] This increase would turn into a decrease due to misguided policies and natural disasters during the Derg regime. During this period, there was no economic growth, and therefore, no positive turning points.

The 1973 drought was an important motive for the coup of January 1974, when the military installed an armed forces coordinating committee: the Derg. Haile Selassi's power eroded quickly. In August, he was accused of devising a cover-up of the famine, and was arrested in September, when Major Mengistu Haile Mariam pledged another coup.[16] Once all his political opponents were cleared, Mengistu insured himself of leadership.

Ethiopia Tikdem

Ethiopian Socialism, or *Ethiopia Tikdem*, was introduced in December of 1974: everything good for the public sector would be nationalized. The Declaration on Economic Policy of Socialist Ethiopia in February 1975 stated: "The elimination of poverty and the prevention of exploitation of the Ethiopian people can be achieved only when the government as the representative of the people, and in the interest of the mass of Ethiopian workers and peasants, directly owns and controls the natural resources and key industrial, commercial and financial sectors of the economy." (DEP 1975:3)[17]

The program was brought into effect in 1975. Banks and the financial sector were nationalized on January first, 1975, 'to guarantee equal services to everyone.'[18] This was not a radical step, since most of the financial sector was already controlled by the government anyway.

Next, the country's 72 commercial and industrial firms were nationalized. This small number emphasized the country's industrial underdevelopment.[19] The commercial sector was constrained by the amount of capital which they were allowed to have: retailers a maximum of 100,000 US Dollars and industrialists 250,000 US Dollars.[20] Two other measures involved distortionary price incentives and heavy controls of international trade and foreign exchange.[21] The government thus limited economic activity and growth in the already quite small commercial and industrial sector.

Nationalization of the land started of March 4, 1975, and was the key economic reform. It affected 88.7% of the population, 60% of GDP en 90% of exports, transporting the revolution from the city to the countryside. It was a radical transformation which dramatically changed the social, political and economical scene of the country.[22] Different forms of land reform had been suggested, but the most radical – nationalization of all land – was implemented, with the help of peasant associations. Every person was allowed a plot no larger than ten hectares, and land could be transmitted to children.

This had major consequences for all landowners, as they lost a great deal of their property, had to share their land with the landless and ex-tenants, and lost control over their land. This loss of control and the constant fear of losing the land had negative impacts on the improvements to agriculture and on the production.[23] The tenants were supposed to receive great profits from the reforms, as rents and feudal dues disappeared, but the post-reform taxes and the fact that the tenants were now subject to many different (government) officials instead of just one landlord somewhat neutralized the benefits.

The landless received the most benefits, as they were now able to make a living.[24]

The highlands were overpopulated, so people had to move. Mengistu claimed that the resettlement would solve problems concerning droughts, and lessen the pressure on the population, as well as on the land itself. In 1975 and 1976, 88 new villages were built. In 1986, 600,000 people had been moved, and by 1989 13 million had been affected, even though international criticism, a worsened security situation and fewer resources threatened to make the plan fail.

Urban land and extra houses were nationalized in July 1975, and urban dwellers` associations were established. The rent was also lowered, from 15 down to 50%, which may have had an influence on the rising food prices, which was 28% in 1975.[25] A large problem was housing shortage. People who had survived by renting out rooms no longer had income. According to the proclamation, the government would pay for lost incomes, which was costly.

During Haile Selassi's rule the gap between poor and rich was very large. *Ethiopia Tikdem* was supposed to reduce this disparity; however, the growth of per capita income was discouraging. By the end of the 1980s, Ethiopia was one of the poorest countries in the world, due to poor economic growth and high population growth.[26] The effects of the reforms are not unambiguous, however. Even though they did not tackle the overall problems of economic development, the land tenure system was destroyed, which was a major obstacle to economic development. It could have been a step forward, were it not for the fact that the Derg had not decided how the policy could actually be changed into economic growth after two years. The reforms did not change the subsistence character of Ethiopian agriculture, and the government was faced with a growing food deficit.

Industrialization had been linked to urban growth at the expense of rural areas. Now, the Derg seemed committed to giving the primary attention to the peasantry, but there was no policy indicating how. There was no industrial policy. The government failed to create a climate conducive to private investment, and practically none was forthcoming.[27]

Famine

1976-1978 brought the Red Terror against the Ethiopian People's Revolutionary Party and all other opponents of Mengistu's regime. It marked the beginning of a steady deterioration in the economic state of the nation, coupled with extractive policies targeting rural areas. The Agricultural Marketing Corporation was to assure the urban population of cheap foodstuffs. However, low prices did not stimulate food production, and some farmers even had to buy grain on the market to fulfill their quota. Grain wholesaling became illegal. Several other restrictions were imposed on the farmers to ensure they did not engage in non-agricultural activities.[28] This is a clear example of how economic liberalization was completely ruled out during the communist period – the peasants were not allowed to grow what they preferred, nor were they free to sell what they wished to whom they wished.

Signs of the upcoming famine were already emerging in 1982 and 1983. In 1984 and 1985, once again, extraordinarily little rain fell in 4 provinces, causing the harvests to fail and acute food shortages to emerge. A major factor in the way the government handled the famine was the civil war, immobilizing the economy and reinforcing the government's inability to manage the crisis to come. 46% of GNP went to military expenses, which would make the army the largest in Sub-Saharan Africa. The percentage of GNP spent on healthcare decreased from 6% to 3%.[29] As signs of the famine began to appear, inaction appealed to Mengistu, for he thought hungry people might be less eager to support expanding guerrilla movements. Also, he needed to concentrate on preparations for celebrating the 10th anniversary of the revolution and the proclamation of a Marxist/Leninist vanguard party.[30]

During the famine, the resettlement and villagization programs were expanded. Populations were moved into less drought-prone areas, to make sure they were moved away from the insurgents in the north. To move the people, trucks, aircrafts and personnel were used that should have been used for famine relief.[31] But far more people had their lives disrupted by villagization: peasants were forced to tear down their houses and carry them to large artificial settlements laid out in a grid pattern. The aim was to move rapidly to a Soviet-style collective farm system, but also to improve the security situation.[32] Food production fell, due to the fact that farmers now had to walk long distances before they reached their plot, the loss of control, the uncertainty, and the low prices for their products.

The resource gap (exports-imports) and fiscal deficit confirms that the Ethiopian economy suffered from great and growing imbalances in the 1970s and 1980s. The resource gap shows an increasing negative trend, and the growing fiscal deficit was due to the fast growing public sector expenditure.[33] The growing trade deficit cannot be explained by referring to terms of trade, however. This can be found in the economic policy and resulting poor economic performance. For instance, the Ethiopian birr was fixed to the US dollar, which meant that the real effective exchange rate for Ethiopia increased with the appreciation of the US dollar. This happened while the resource gap was increasing.

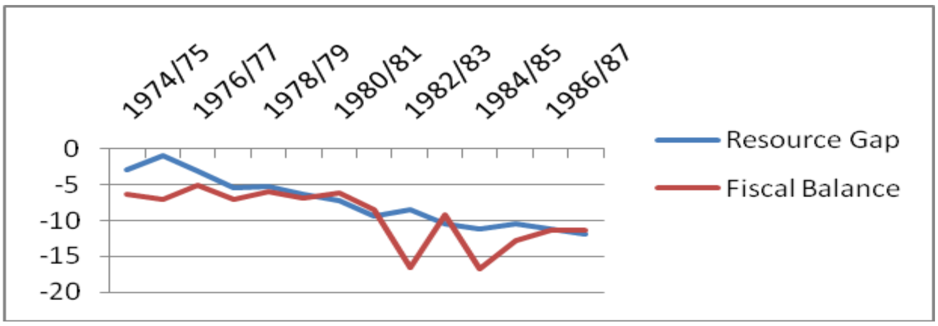


Figure 1 Source: National Bank of Ethiopia as used in Hansson, Gote. The Ethiopian Economy 1974-1994.

Firmly administered socialist economic policies had brought an accelerated drop across the entire Ethiopian economy. The low GDP rate was mainly due to poor performance in agriculture. The contribution to GDP of this sector decreased from 53% in 1974/1975 to 41% in 1987/1988. The contributions from industry and services increased, however, but could not compensate for the agricultural sector. In the 1980's, 80% of the population was employed in agriculture, and it made up 85% of exports.[34]

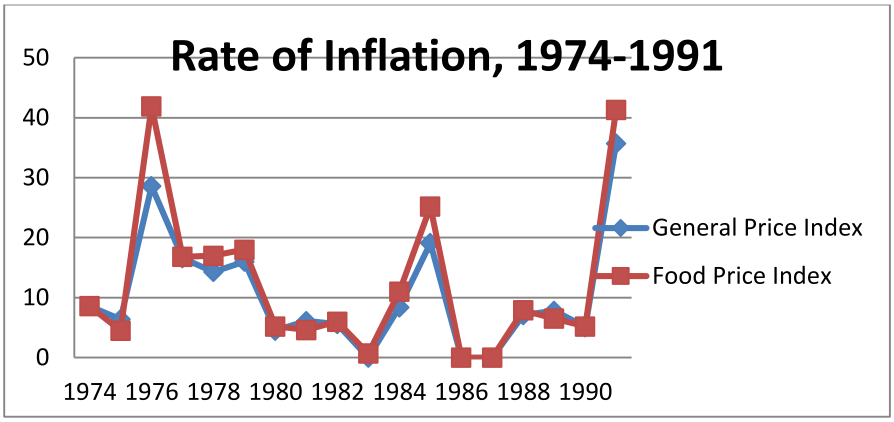
Table 1 Average annual growth of production (%, constant prices)

	1965-1973	1973-1980	1980-1987
Agriculture	2.1	0.6	-2.1
Industry	6.4	1.4	3.8
Services etc.	6.6	3.3	3.5

Source: World Bank 1989, table 2, as used in Hansson Gote. The Ethiopian Economy 1974-1994. London: Routledge.

The military share of the national budget rose by 10 per cent from 1974 to 1984, and by 1984 petroleum imports were absorbing 47.5 per cent of export earnings. Foreign currency reserves fell from $221 million in 1979 to $67 million in 1984.[35] The current account balance was stable from 1980-1990, with a slight drop in 1985.[36] Imports and exports were also relatively stable, with exports (6-8% of GDP) always being less than imports (11-14% of GDP).[37]

Agricultural producer prices were kept low for the military to get food for soldiers at lower cost, and to keep consumer prices down. Consumer prices should have been subsidized, but instead, the producers were taxed heavily through low prices. With subsidies, domestic production would have been higher, and the demands for imports lower. Food prices have changed at least as much as prices in general.[38] During the great famine food prices soared, as did the general price index. During periods of political transition, inflation has also risen, in 1975 largely due to the introduction of *Ethiopia Tikdem.*



The post-communist period, 1991-present

In the late eighties the opposition against the Mengistu regime grew exponentially because it failed to meet its promises of change. Its reaction to this opposition was suppression, which resulted in even more opposition. The most important opposition groups united in the Ethiopian People's Revolutionary Democratic Front (EPRDF) in 1989.[39] This Front was able to overthrow the Derg and to implement a new democratic and decentralized system in Ethiopia. Economic reforms, emphasis on agriculture and ethnic federalism were important changes in this new regime. The following part will address the economic policy of this government, as well as its rural policy.

Structural reforms

The changes in Ethiopia already started during the end of the Derg regime. The civil war between the Derg and armed opposition groups had put increasing pressure on the government and in a reaction the government started to apply some minor reforms. The first step in this process was liberalization of the economy, starting with liberalization of the food markets in 1988.[40] The quota system for farmers was removed and trade taxes and restrictions were lifted. Consequences were an increase in prices in surplus areas and stronger interregional interconnectedness, leading to fewer seasonal price fluctuations.[41] These economic changes had positive effects on small-scale producers. Strangely enough, the expected positive effect on the GDP did not show in the data, GDP even decreased with 0.45 percent in 1989, as can be seen in the appendix. This decline is attributed to falling government expenditures due to falling revenues caused by the civil war.[42]

The Derg regime was overthrown in 1991 and replaced by a Transitional Government by the EPRDF, which ruled until the first democratic elections in 1993. The Transitional Government took the reforms several steps further by starting a structural reform policy in 1992 that was incorporated in the Structural

Adjustment Programme of 1993-1996 with the International Development Agency and the African Development Fund.[43] The aim of the Programme was to promote sustainable development and poverty reduction by means of a structural reform of the economy towards a market-based system that included macro-economic stability, economic liberalization and fundamental structural reforms.[44]

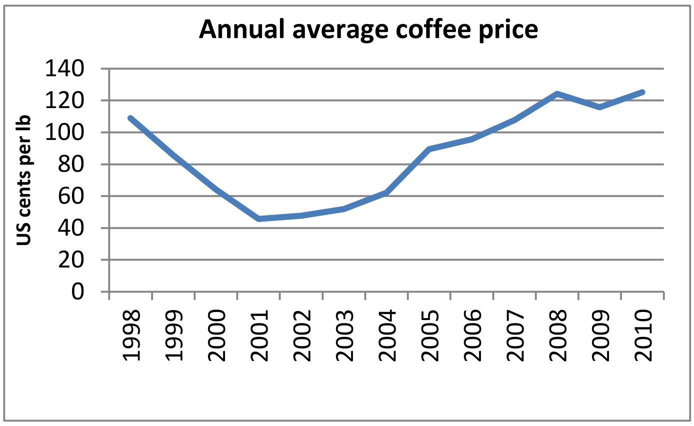
The Derg regime left Ethiopia with major monetary imbalances. The imports far exceeded the exports and the systematic overvaluation of the currency only supported this distortion. Therefore the national currency of Ethiopia, the Birr, was devaluated in October 1992, for the first time since the 1970s, from US$ 2.07 to US$ 5.0. Expected rapid rise of inflation was not forthcoming and the black market rate only rose moderately. As a result, the real exchange rate depreciated by a percentage very close to the nominal devaluation.[45] The government gradually liberalized the exchange rate until 1998; since then the exchange rate is fixed in a general auction. As a result, the gap between the parallel and the official exchange rate has virtually disappeared.[46]

In addition, the government followed a prudent monetary and fiscal policy, which led to a relative stabilization of annual inflation. Unfortunately, the weather is a big influence on the inflation rate, since agricultural output is still very dependent on favorable weather and agriculture still constitutes 45 percent of total GDP.[47] These reforms together could explain the sudden rise in annual GDP growth in 1992 from a strong decline of 8.9 percent in 1991 to over 13 percent in 1992.

Another issue the government addressed is one of the most controversial issues in Ethiopia: land tenure. Constant land reform was put to an end as early as 1989. Beforehand, land could legally be taken away from households at any time. The new EPRDF government affirmed a commitment to land tenure security, but it also believed that the land right of peasants could best be protected by ownership by the state. The major problem inherent to this system is insecurity of tenure for peasants and pastoralists.[48] This system also has negative consequences for the industrial sector, since entrepreneurs are unable to use land as collateral for loans.[49]

Agricultural Development Led Industrialization

The first Structural Adjustment Programme was followed by similar programs. One of these programs is the Sustainable Development and Poverty Reduction Programme of the IMF, which aimed at the rapid development of Ethiopia's economy, the ending of food aid dependency and the ability of poor people to benefit from economic growth. Ethiopia committed itself to the Programme from



2002.[50] The overall aim was to progressively integrate Ethiopia into the world economy.[51]

A large pillar of the program is made up of the Agricultural Development Led Industrialization (ADLI), which is a strategy used to improve small-scale agriculture. Small-scale farming encompassed 95 percent of the total food production, but was never prioritized by the government when it comes to investment.[52] With this program, the government has officially promoted participatory rural development as a bottom-up approach. Government investment has shifted towards the agricultural sector to promote the increase of agricultural productivity. The strategy aimed to achieve growth by means of fertilizers and other agricultural inputs and major investment in small-scale water conservation. Since Ethiopia has an extremely small ratio of urbanization, domestic demand for agricultural products is by definition insufficient to foster this agricultural-based growth. Therefore agriculture has to be made internationally competitive so a part of the production can be exported.[53]

The next step is to expand growth through investment in infrastructure of transport and power. This is especially important for Ethiopia where livestock is still the most common means of transportation. The final phase seeks to improve growth by expansion and diversification of exports to cover the expenses of the growing capital-intensive imports.[54]

GDP declined in 2002, as a result of drought, but rose extensively since 2003, which could indicate that this program succeeded in its goals.[55] However, value added by agriculture only grew modestly from 2002 to 2008 from 42 to 43 percent, with a peak of 48 percent in 2006, while the aim of the program was to make agriculture the motor of the economy. Moreover, exports did rise from 13 to 15 percent in 2002-2005, but declined again to 12 percent in 2008.[56]

Pastoralist policy

Government policy has always had an anti-pastoralist bias and this bias still existed in the democratic government, despite the dedication of this government to rural development. As a consequence many highland inhabitants see the pastoralists as backward and uncivilized and this thinking was incorporated in government policy towards pastoralists. The EPRDF government still pursued a policy of resettlement of pastoralists along the major rivers, and transformation of their way of living into cash crop production, the dominant means of agriculture in Ethiopia.[57]

Since 2003 the Ethiopian government cooperates with the World Bank in the so-called Pastoral Community Development Project, to seek to improve the livelihoods of pastoralists of the arid lowlands. Since pastoral areas account for 60 percent of Ethiopia and hold between 12-15 percent of the country's total population, this focus on pastoralists is very important for the country's economic development.[58] The program consists of a 15-year, three-phase, Adaptable Program Loan (APL). The means to achieve its goals are fostering income growth, access to public services and facilitating better institutional, social and environmental conditions.[59] The results of the first 5-year program are moderately satisfactory. The project has been satisfactory in providing capacity building training, thereby increasing access to public services. However, it has been marginally unsatisfactory in its second objective of risk management. The planned institutional framework was not put in place, since the responsible institution, the Federal Disaster Prevention and Preparedness Commission, was reorganized in this period and failed to acknowledge responsibilities.[60]

Balance of Payments

Ethiopia is facing a structural balance of payments deficit since imports structurally exceed exports, and the deficit is only rising. The exports increased from 6.3 percent of GDP in 1998/99 to 6.4 in 2008/09, while imports rose from 20.4 percent to 32.2 percent.[61]

Coffee is still the most important export product of Ethiopia. Economic growth declined in 2009 and 2010, as a result of a decline in foreign demand for coffee. Ethiopia exported 2,805,766 bags of coffee from February 2008-January 2009, while this export declined to 1,888,651 bags in the same period one year later. The coffee price rose exponentially since 2002/2003. This is part of the explanation for the double digit growth rate of Ethiopia since 2003. The coffee price declined in 2009, which could explain part of the decline in growth since 2009.[62]

This growing difference between imports and exports can be explained by a rapid growing demand that has been running ahead of the expansion in the capacity of the economy, contributing to high inflation and strong import growth. Moreover, international prices of oil and fertilizer, the most important import products of Ethiopia, rose sharply from 2007-2008. These exogenous shocks have made the balance of payments situation even more vulnerable.[63]

HIPC initiative

Although the high growth numbers are a very positive development, Ethiopia is a heavily indebted country. Public debt constituted 79.6 percent of GDP in 2005/6 and domestic debt 30.7 percent. On April 2, 2004, Ethiopia reached its completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative. In 2006 the World Bank approved 100 % cancellation of Ethiopia's debt to IDA. The World Bank had approved cancellation of debt owed to the Fund in 2005 and the African Development Bank in 2006.[64] As a result, public debt declined to 35.9 percent in 2007/8, and external debt declined from 48.9 percent to 11.9 percent in the period 2005/6-2007/8.[65]

Conclusion

Ethiopia transformed from a socialist country to a market-based country and realized annual growth rates of over 10 percent for the period 2003-2008. Due to the global financial crisis growth slowed down, but is still high. Moreover, the EPRDF government managed to bring the life expectancy at birth up from 47 years in 1990 to 55 years in 2008. Moreover, the poverty incidence (% of population) decreased dramatically from 46 in the early 1990s, rising to 56 in the beginning of this millennium, to 39 in the year 2009.[66]

References Chapter 1

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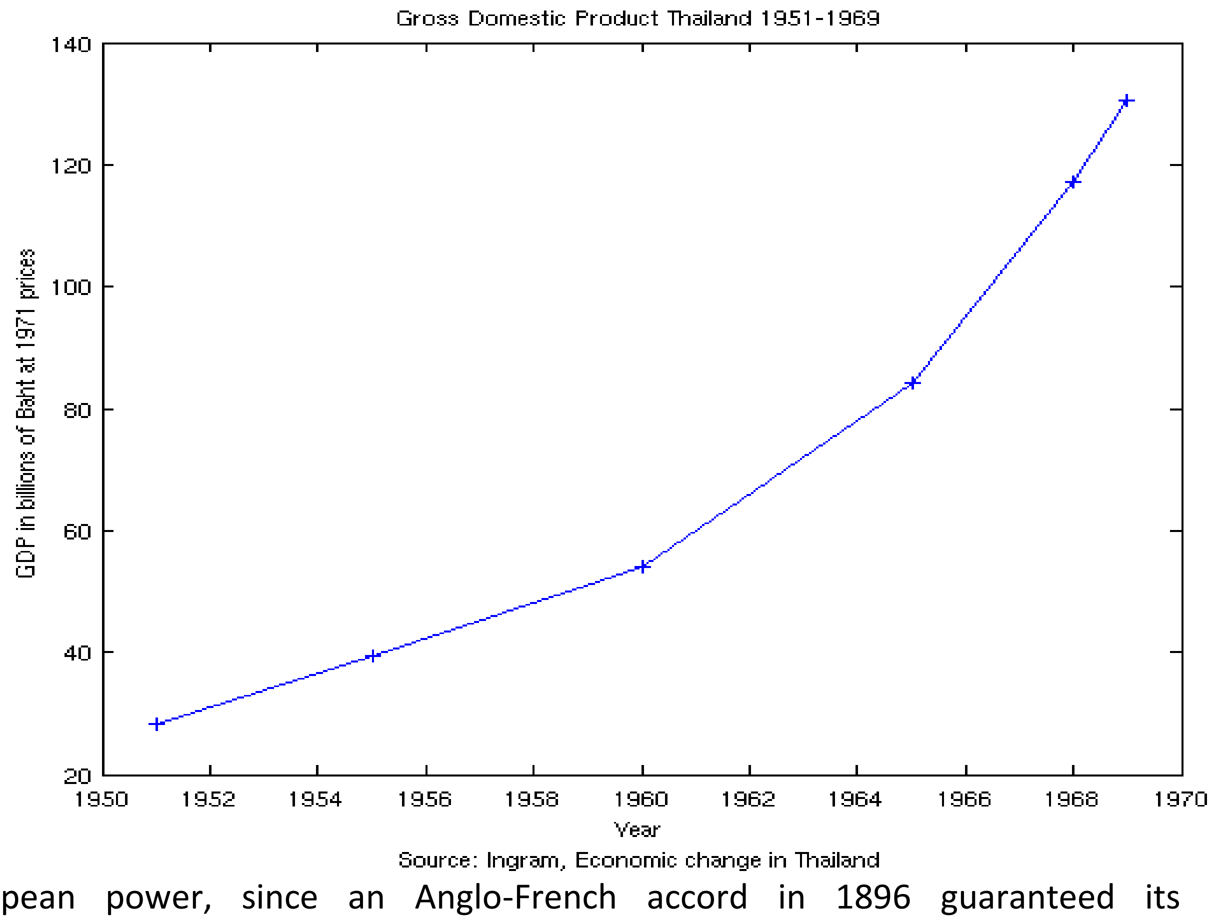
CHAPTER 2 | Thailand

Thailand is located in the heart of Southeast Asia. It became a unified kingdom in the mid-14th century and was known as Siam until 1939. Thailand has been a constitutional monarchy since the bloodless revolution in 1932. Since then, it has had 17 constitutions and constitutional charters. During this time, the form of government has ranged from military dictatorship to electoral democracy, but all governments have acknowledged a hereditary monarch as the head of state. Thailand is the only Southeast Asian country never to have been taken over by a



European power, since an Anglo-French accord in 1896 guaranteed its independence.

Today Thailand has a population of nearly 66 million people, 33% of which live in the urban areas. Bangkok, Thailand's capital is by far the largest city. The main religion of the Thai people is Buddhism. Thailand is rich in natural resources such as natural gas, timber and tin and rich in arable land.

1950s

Agriculture in the 1950s

It took the Thai economy nearly a full decade to recover from World War II, but after 1950 the economy started to grow rapidly. The industrial sector also went through a significant period of growth. The sectors that have grown most significantly since 1950 are construction, transportation, communication, manufacturing, electricity, services and finance. Lower growth rates could be found in, amongst others, agriculture, mining and trade. However, the agricultural sector has remained the largest and therefore Thailand can be considered an agricultural country.[1] Since the late 1950s the Thai government has supported private firms to operate in the agricultural sector instead of government enterprises, which were thought to be inefficient. The government started with securing and allocating land rights. This led to the impoverishment of petty farmers. Large landowners obtained both land and wageworkers or leaseholders and increased sales possibilities. In the mid 1950s, the government started offering credit facilities to successful farmers with which they could acquire new technology (tractors), seeds, fertilizer and insecticides. With aid from the World Bank irrigation structures were realized. This led to the necessity of harvesting all crops at the same time, which again favored large landowners and rich farmers. The difference between rich and poor within the rural area increased.[2]

Economic policies in the 1950s

Thai economic policies shifted during the late 1950s when the military government of Sarit Thanarat (1957-1963) imposed a variety of economic controls. The most important were the establishment of the multiple exchange rate system and, above all, the state management of the rice trade.[3] Since the end of World War II, Thailand has experienced several government interventions in the country's agricultural policy. The most important example of the government restricting economic freedom in the agricultural sector in the second half of the 20th century is the rice premium. This measure was introduced in 1945 as a tax on rice exports and it proved to be an important source of tax revenues for the government. Thus, the government created a monopoly on the trade of rice. It sold the rice to the shippers for a price more than 20% higher than they had paid the farmers. The export price was, moreover, expressed in foreign currency which often meant a profit for the government. Since 1950 the growth of rice has continued to decline. Yet, rice has remained the most important crop.[4]

The rice premium was meant to send the agricultural surplus to the urban economy. Food prices were kept artificially low. The effect was that the consumer prices as well as the prices received by farmers were well below international prices. This meant that the taxation depressed rural income and also impeded technical progression by altering the price-cost ratio in the rice sector. In addition, there were export quotas for individual exporting agents. The consequence was that a non-competitive element was assigned to the rice market. From 1973 to 1986 there was on top of the rice premium and export tax a compulsory rice reserve, to save sufficient rice for domestic consumption. Exporters were required to sell the government a proportion of their rice at a price lower than the domestic price. The government could resell and gain a profit.[5]

Moreover, the rice premium was meant to diversify the country's agriculture. For many small and large farms rice is the most popular crop because of the favorable climate and the present knowledge regarding the growing and harvesting of rice. According to the government, peasants were to be made aware of the long-term benefits of agricultural diversification. Diversification began to be implemented on a large scale between 1970 and 1980, when the farmers who could no longer exist by growing rice switched to growing less taxed crops, such as corn, sugar, fruit and cassava. A lot of these activities required relatively large investments. They formed pre-eminently sectors for commercial farming: the agribusiness. These new developments led to the emergence of a political, social and economic structure in rural areas. The new agricultural political-economic elite used its income, its increasing economic independence and the fact that a large part of the rural population was dependent on them to increasingly influence national politics.[6]

The central bank of Thailand

The aforementioned economic policies were implemented by the Central Bank of Thailand. The bank has the power to shape Thailand's monetary policy and has been a stable factor over the last sixty years, despite the political instability of Thailand.[7] The monetary policies implemented by the Bank of Thailand since World War II have been shaped by a strong aversion to inflation. After a rapid increase shortly after the Second World War, inflation has remained below five percent. The only exceptions can be associated with the petroleum price increases of the 1970s and the Asian financial crisis of 1997.[8] But other than those exceptions, Thailand has done a good job in keeping inflation numbers at a low level. The only year in which inflation rose above twenty percent was in 1974, when it was 20.33%. But in the following year, inflation immediately decreased to a level of 3.49%.

1960s / 1970s

Due to the presence of the United States between 1959-1974[9] the state of Thailand modernized and westernized in a rapid speed. Thailand was being exposed to Western culture, while until the 1960s only the elite was able to gain access to it.[10] During the late 1950s and the 1960s the Thai economy began to shift from production for the domestic market towards orientation to foreign markets. This, among other things, strengthened the diversification of agriculture. The US military presence was an important stimulus in this shift.[11]

Trade

Thailand has entered in several bilateral and multilateral free-trade agreements with other countries. The most important are the Thailand-Australian Free Trade Agreement (TAFTA) and the Association of Southeast Asian Nations (ASEAN). The latter was established in 1967 and consists, besides Thailand, of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore and Vietnam.[12]

Competition in Thailand has mostly been open and has relied on market prices. In some cases, however, the state used income tariffs to regulate the size and composition of imports.[13] During the 1960s and 1970s agricultural exports were the major source of foreign exchange earnings. However, as mentioned before, export earnings were directed away from the traditional sector to support further industrialization.[14] Thus, the protective system was biased against the agro-based industries and toward manufactured goods of both import- and non-import competing goods.[15]

In spite of this, the part of the population that worked in agriculture continued to increase until the mid-1970s. At the same time productivity of agriculture grew more rapidly than that of industry. This was not achieved by endeavored government policy, but it was the consequence of the extension of the agricultural area and diversification of agricultural activities. Responsible for this development were the farmers themselves. The policy of the government in the 1970s was confined to constructing dams to facilitate irrigation. Most of Thailand's irrigated land is concentrated in the Central Plain (the area around Bangkok). The distribution of irrigation systems has been unequal between regions. More than 60% of the arable land in the Central Plain is irrigated, compared with 13% in the Northeast, 34% in the North, and 22% in the South.[16]

The National Social and Economic Development Plans

In 1959 the National Economic and Social Development Board (NESDB) was established with the purpose of managing the National Social and Economic Development Plans. These are Five-Year Plans for planning and formulating development strategies based on balanced and sustainable development for the Thai people.

With the First Plan (1961-1966), there was an expansion of agriculture (6.2%). This plan was characterized by a global policy of import substitution. The introduction of import tariff rates helped to build up the private sector, in particular manufacturing.[17] The Second Plan (1967-1971) was largely a continuation of the First Plan. The government put its emphasis on public expenditure in slower growth areas, especially in the rural sector. However, success was limited. In this period expansion of agricultural land base virtually ceased, since the land frontier was exhausted. The consequence was that agricultural contribution to production diminished. Agriculture was shedding labor into the rest of the economy and has been doing this ever since.[18] The expansion of the road network had a considerable effect on agricultural development. It provided farmers with direct access to external markets, which increased the prices of cash crops, as well as access to a vast amount of uncultivated land.[19]

During the Third Plan (1972-1976) moderate emphasis was put on development thinking and on providing rural areas with services such as electricity and health services. Priorities were set for reducing growing disparities between urban and rural areas. The share of public expenditure on agriculture rose considerably, as did the share on health and education. This had everything to do with the representative government of 1974.[20] However, because of the centralized administration, social and economic support mainly benefited the population in and around Bangkok so that the objectives set for development in particular rural areas could not be reached. Despite an annual real growth rate of 6.2%, income distribution became increasingly inequitable.[21]

During the Fourth Plan (1977-1981) there existed diversification and increased efficiency of production in rural areas. The share of public expenditure on agriculture declined while that on industry, energy, transport and defense increased. This was because of the military coup of 1976, which put the control of the government's finances back in the hands of the military.[22]

In Thailand, development NGOs date largely to the 1970s and the early 1980s and emerged primarily in response to the effective bias in Thai government policy against agriculture and the rural poor. Between 1973 and 1976, when military rule was briefly replaced by parliamentary democracy, development NGOs proliferated rapidly. After the military coup of October 1976, however, NGO activities deemed leftist by the government and were suppressed. Such NGOs only reopened their activities during the early 1980s as the government of General Prem Tinsulanond (1980–1988) introduced tentative reforms.[23]

Investment and expenditures in rural development

Public investment affects rural poverty through many channels. For a start, it increases farmers' income directly by increasing agricultural productivity. Indirect impacts come from higher agricultural wages and improved non-farm employment opportunities. Public investments help the development of the national economy by providing labor, human and physical capital, cheaper food, and markets for urban industrial and service development. Growth in the national economy reduces poverty in both rural and urban sectors.[24]

Thailand's government expenditure on agriculture has been around 10% of GDP since the 1970s. Besides government expenditure on infrastructure and irrigation, the Thai government has also put a large amount of money in agricultural research. It recognized that rapid economic growth could not be sustained without increased investment in science and technology aimed at raising productivity. The Fifth National Development Plan of 1982-1986 emphasized investment in science, infrastructure and manpower. Subsequent development plans established a goal of increasing the level of science and technology investment.[25]

Within agriculture, the largest share of the research budget is for crop research, while the budgets for livestock, forestry, and fisheries are relatively small. In addition to investing in public research, the Thai government has also implemented policies to support private research, which have included tax incentives and subsidized loans, but the overall demand for these subsidies appears to be small.[26]

Government intervention in the nation's rice production continued in the 1970s in the form of the 'agricultural credit policy.' This policy was implemented in 1975 and meant that commercial banks were required to lend a fixed proportion of their previous year's deposits to agriculture. This measure was designed to enlarge the flow of private credit to agriculture.[27]

External shocks

The balance of payments of a country is an important indicator when establishing to what extent policies have resulted in low deficits. In countries that operate with fixed exchange rates, such as Thailand, concerns over the balance of payments dominate economic policy discussions. These concerns prevent countries from building unsustainable external deficit. This is also true for Thailand.[28] During the 1970s the Thai balance of payments experienced two external shocks.[29]

Shock 1 was a temporary shock with a positive effect. In 1973-74 the prices of primary products rose, but did not have a decreasing effect on export. As a consequence, the value of Thai export rose as well.

Shock 2 was a consequence of shock 1. One of the primary products of which the price rose was petroleum, which was imported by Thailand. The more expensive import of petroleum was in first instance masked by the higher value of the export. The higher price of petroleum was however not temporary. The negative effects of this shock on the balance of payments became apparent between 1975 and 1978. These two shocks would be followed by three other external shocks in the years to come. These shocks will be discussed later.

Interest rates

The Central Bank of Thailand has always stimulated high interest rates. However, due to a lack of control over foreign assets, the bank of Thailand could only influence the short-term interest rates. It could therefore only adjust shocks to inflation and avert long-term damage. In the ability to shape interest rates, the policies of the bank have been successful.[30]

In the seventies, the nominal interest rate for Thailand averaged 9.66%.[31] This number was similar to other East Asian countries and far higher than African interest rates at that time. Since 1979, the minimum interest rate on fixed deposits of Thailand varied, but was mostly close to ten percent. The interest rate maintained this level until 1995. In the twenty- first century, there is a clear development visible towards lower interest rates. This development has led to interest rates as low as one percent.[32]

1980s

Since the 1980s, Thailand has shifted towards becoming an outward-oriented, market-based economy. The importance of the private sector is even more emphasized and the manufacturing export industry has gained territory and became more divers. Furthermore, the construction and service, especially finance and tourism, sectors grew significantly.[33] In 1985 manufacturing overtook agriculture as a share of Thai GDP.[34] For the past several decades, Thailand has experienced rapid economic growth that has transformed the country from a predominantly agrarian society to a newly industrialized economy, much like the so-called Asian Tigers. In the early 1960s, more than 80% of the population was engaged in agricultural activities. Since then the Thai economy has achieved one of the highest long-term growth rates among all countries. In 1991, 'only' 60% worked in agriculture. It is remarkable how much the industrial and service sector have expended since then, because they accounted for 80% of Thailand's total GDP.[35]

In the Fifth Plan (1982-1986) emphasis was put on improving the quality of life of the rural poor. The growth momentum was thought to lie with industrial development, whose share of output was projected to reach that of agriculture by the end of the planning period.[36] Poverty in rural areas and migration to Bangkok were recognized as major problems. Therefore, emphasis was put on the development of provincial cities and on the creation of industrial sites outside Bangkok.[37] The positive trend of the Fifth Plan was continued in the Sixth Plan (1987-1991), based on the continuation along the same policy goals. Boom years existed with an average growth rate of 11%. Driving forces were sharply rising manufacturing exports, including commercial agricultural products. Still, efforts towards the implementation of rural industries were limited, infrastructural bottlenecks emerged and success in reducing income disparities was limited.[38]

In the Seventh Plan (1992-1996) one of the major goals was, once again, the economic strengthening of the provinces and the reduction of income disparities between rural and urban areas to be reached by further decentralization of the industry and promotion of small and medium-scale enterprises.[39] The Eighth Plan (1997-2001) and the Ninth Plan (2002-2006) largely followed the Seventh Plan in its emphasis on decentralization and the attempt to reduce income disparities.

The Thai Balance of payments in the 1980s

In the 1970s, the Thai balance of payments experienced two external shocks. In the 1980s, the balance of payments was again affected by two external shocks. Shock 3 was felt during 1979-85 and was again caused by a rise in the price of petroleum. In combination with growing interest rates in 1980-82, this caused negative effects for Thailand's balance of payments. Imports increased much faster than exports and the interest payments over the debt increased even faster because of the higher interest rate.

Shock 4 was caused by lower petroleum prices, rising prices of primary commodities, and the movement of light manufacturing enterprises form Northern Asia to Thailand. This shock, during 1986-90, had positive effects on the macroeconomic stability of Thailand, because the price of imports decreased, the value of exports grew, and jobs were created.

Monetary policies

Thailand is known for its conservative monetary policies. This extends to Thailand's currency instrument. Thailand has been reluctant to use the Thai Baht as a policy instrument. The Baht was pegged to the US dollar, from the 1950s to 1984. After 1984, the exchange rate policy has been described as a managed float regime in which the exchange rate of the US dollar still plays an important role.[40]

There have been two moments at which the Bank of Thailand decided to devaluate the Baht, during 1981 and 1984. The Bath/USD rate is displayed in a table at the end of this section. The objective of these devaluations was to reduce the existing balance of payments deficits.[41] Analysts at the Bank of Thailand had concluded that this deficit was a consequence of the overvaluation of the Baht, which harmed the international competitiveness of Thailand. Evidently, the analysts argued that devaluation was the solution to this problem.

Due to the conservative nature of monetary policy in Thailand, the Baht has been a stable currency over the years. This stability also had a stabilizing effect on the price level in Thailand. The only moment where the exchange rate of the Baht showed severe instability was during the Asian financial crisis.

1990s / 2000s

Baht : US$ (Reference rate) average (Baht : 1 USD)	
1979	20,42
1980	20,48
1981	21,82
1982	23,00
1983	23,00
1984	23,64
1985	27,16
1986	26,30
1987	25,74
1988	25,29
1989	25,70

The development of domestic debt

The Thai government provides the following definition of government domestic debt: "Government Domestic Debt refers to the outstanding debt of the central government issued for three purposes; financing budget deficits, the stability of financial institution system and repaying external loans."[42]

Thailand did not start to build domestic debt until 1996. Since then, the domestic debt of Thailand has grown to 3,248 billion Bath in 2010.[43] If Thailand maintains this pace, the national debt will become a severe burden on the future development of the economy. It should be noted that the national debt did not increase in the past year.

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
GDP at constant 1988 price (Billions of Baht)	4.262,0	4.361,4	4.256,5	4.056,5	3.858,0	3.688,1	3.468,1	3.237,0	3.073,6	3.008,4	2.871,9	2.749,6	3.072,6	3.115,3	2.941,7
Domestic debt (Billions of Baht)	3.248,0	2.692,7	2.482,9	2.331,2	2.127,3	1.989,9	1.770,1	1.735,5	1.337,2	1.200,0	1.012,6	524,9	316,6	310,3	0
Domestic debt relative to GDP	0,76	0,62	0,58	0,57	0,55	0,54	0,51	0,54	0,44	0,40	0,35	0,19	0,10	0,10	0

Because of the conservative policies related to creating national debt before 1996, Thailand was able to avoid the severe debt crisis that many developing countries in the 1980s experienced.[44] This is a positive conclusion in the context of macroeconomic stability of Thailand.

One of the reasons Thailand started to build domestic debt after 1996 is the external debt of the country, which has been a heavy burden for Thailand's economy. In 1979, the Thai external debt was equal to 6.8 billion US$ and this number grew to 109.2 billion US$ in 1997. After 1997, the Thai government invested in decreasing the external debt. The government reduced the number to 69.9 billion US$ in 2009, evidently the domestic debt increased in order to reduce the external debt.

Trade balance (Billions of USD)	
1979	-2,3
1980	-2,8
1981	-3,0
1982	-1,5
1983	-3,8
1984	-2,9
1985	-2,2
1986	-0,5
1987	-1,6
1988	-3,9
1989	-5,3
1990	-9,8
1991	-9,5
1992	-7,9
1993	-8,5
1994	-8,7
1995	-14,7
1996	-16,1
1997	-4,6
1998	12,2
1999	9,3
2000	5,5
2001	2,4
2002	2,7
2003	3,7
2004	1,4
2005	-8,2
2006	0,9
2007	11,5
2008	0,1
2009	19,4
2010	0,5

One of three important indicators to conclude to what extent Thai policies resulted in low deficits is the trade balance. The trade balance indicates the difference between export and import.[45] Structural negative results on the trade balance could frustrate macroeconomic stability, because it leads to foreign debt. A growing supply of the Baht stimulates inflation and foreign debt obliges Thailand to pay interest over that debt. The table to the left shows the Thai trade balance.

The data shows that Thailand had a negative result on the trade balance until the Asian financial crisis of 1998. Earlier analyses showed a rapid rise of the inflation in Thailand due to the crisis. This made Thai export more attractive to countries that did not experience strong inflation at that time. In 1998, Thailand exported products worth 52.8 billion US dollar. The value of exports experienced its highest level so far in 2008, when the value grew to 175.2 billion US dollar.

Balance of payments (Billions of USD)	
1979	-0,3
1980	0,2
1981	0,0
1982	0,1
1983	-0,7
1984	0,4
1985	0,5
1986	0,4
1987	0,9
1988	2,5
1989	4,0
1990	3,8
1991	4,2
1992	3,0
1993	3,9
1994	4,2
1995	7,2
1996	2,2
1997	-10,6
1998	1,7
1999	4,6
2000	-1,6
2001	1,3
2002	4,2
2003	0,1
2004	5,7
2005	5,4
2006	12,7
2007	17,1
2008	24,6
2009	24,1
2010	4,9

In 1997, the value of the Baht in US dollar dropped by 31.9%, but this development was hardly accountable to the Bank of Thailand. Consequences for the exchange rate of the Baht were in line with consequences of the Asian financial crisis for currencies in South-East Asia. The shift was similar to shifts in the exchange rates of other currency units of the region.[46]

After 1997, the Baht showed its stability by slowly, but structurally, moving towards its pre 1997 level. This was partly accomplished because of support by the IMF, multilateral and bilateral aid that Thailand received. The total aid to assure recovery was 17.2 billion US dollar, and another 3.9 billion US dollar a few months later. In return for this vast amount of dollars, Thailand had to restructure a part of the commercial banking sector, increase VAT from 7% percent to 10% and stimulate market liberalisation. The aid Thailand received to solve the financial problems was, however, relatively small. Indonesia and Korea received 42.3 and 58.4 US dollar respectively.[47]

The Asian financial crisis of the late 1990s was also the fifth external shock to severely influence the Thai balance of payments. It had negative effects on the balance of payments, which became especially apparent in 1997. Rapid inflation created a major shift in the balance of payments, because import prices increased. However, the higher prices of imports were compensated by the growing Thai exports.

Despite the external shocks, Thailand has been able to achieve stable results on its balance of payments. This implies that Thai policies to cope with the shocks have been successful. In times of negative shocks, Thailand capitalized on the positive opportunities that came along with the same shock.

Cash balance

(Billions of Baht)	
1979	-12,3
1980	-21,8
1981	-17,5
1982	-42,5
1983	-26,7
1984	-34,9
1985	-34,4
1986	-39,9
1987	-17,8
1988	30,2
1989	59,3
1990	103,3
1991	123,7
1992	85,9
1993	68,9
1994	65,8
1995	112,5
1996	104,3
1997	-87,1
1998	-115,3
1999	-134,4
2000	-116,6
2001	-107,9
2002	-118,7
2003	34,3
2004	17,2
2005	16,9
2006	4,5
2007	-94,2
2008	-24,0
2009	-420,3
2010	-177,9

The shocks that influenced the balance of payments can also be connected to the results on the government finance cash balance. This balance shows negative results in periods of negative shocks, described above. In the case of a positive shock, like the fourth shock, the government finance cash balance shows positive results.

The table on the left clearly shows that Thailand has mostly dealt with negative results on the government finance cash balance. The negative results hurt Thailand's macroeconomic stability. The bank of Thailand can print more money, to compensate for the deficits on this balance. This would however stimulate inflation, which might be an even bigger problem for Thailand's macro economy. But when no extra money is printed, the government of Thailand has to deal with debt over which it needs to pay interest. The result of this policy will mean extra pressure on the balance of payments. So both policies that could follow after a deficit on the government finance cash balance would have negative effects for macroeconomic stability, either via stimulating inflation or via higher interest payments. The structural deficits on the government finance cash balance could therefore pose a threat to Thailand's macroeconomic stability, especially when analyzing the trend in recent years.

Conclusion: Thailand now and in the future

Since the 1990s, Thailand saw the development of a structurally lower interest rate. The reason behind this development is the financial liberalization that commenced in 1992. Because of the financial liberalization, the Central Bank of Thailand can only try to control the domestic interest rate indirectly. Nevertheless, the financial liberalization of the financial market has been reasonably successful.[48] The development towards the lower interest rate should stimulate the Thai economy in the years to come. The IMF argues that an interest above five percent is too high. For decades the Thai interest rate was far higher than this five percent, even though this was the case all around the globe. We can therefore not speak of low long-term interest rates in Thailand.

In the 1960s, the share of the agricultural sector in GDP was 39.8%[49] and in 2009 this number had declined to 12.3%. Nevertheless, some 42% of the work force is still engaged in farm or non-farm activities in rural areas.[50] Thailand has remained, moreover, the largest rice exporter in the world. Therefore, the agricultural sector still plays a large role in providing income and employment to a large part of the Thai population. Thailand has had high rates of economic growth close to the level of the Asian Newly Industrialized Countries. However, this growth has gone hand in hand with an increasingly unequal overall income distribution. Since the First Plan of the NESDP income distribution and improvement of productivity and living conditions in the rural areas have been recognized as a major development issue. Yet, based on the belief that high overall growth rates would benefit all sections of the population, the measures undertaken aimed at accelerating industrialization mainly benefited upper income groups.

Government expenditure has been around 10% of Thai GDP since the 1970s. However, through most of the past fifty years, Thailand’s government has actually been biased against agriculture. It has oppressed rural development by directing away profits from the agricultural sector towards industrialization, by levying of export taxes on agricultural products and by confining rural aid to areas around Bangkok. Therefore, it cannot be claimed that Thailand has had a rural policy in the past fifty years.

When economic freedom is concerned, in 2010 Thailand is ranked number 66 in the world and listed as number 10 of 41 countries in the Asia-Pacific region. This is above average in both the world and the region. According to The Heritage Foundation the political instability that has characterized Thailand since 1932 has definitely had a negative impact on its economic freedom. Despite the fact that over 40% of the labour force is working in the agricultural sector, the rise of the manufacturing industries, especially those that develop high-technology products, has led to a significant growth of the export sector.[51] Although Thailand is in many ways an open economy, there have been major restrictions on economic freedom in the agricultural sector.

Poverty incidence, measured as the percentage of the population living below the poverty line, has fallen dramatically. In 1962, 57% of the total population lived in poverty. This ratio declined to 9.6% in 2006.[52] There is clearly a strong positive relation between overall economic growth and reduction of poverty. However, poverty reduction has not been uniform across regions and between rural and urban areas. In all regions, the incidence of poverty was much higher in rural villages than in urban areas.[53] As a result of the government's urban-biased policy, the income and productivity gaps between rural and urban areas have enlarged over time. Productivity in the non-agricultural sectors is now 8 to 10 times larger than in agriculture. In 2000, the incidence of rural poverty was 20.1% while the incidence of urban poverty was only 5.8%. Today, almost 90% of Thailand's poor reside in rural areas.[54]

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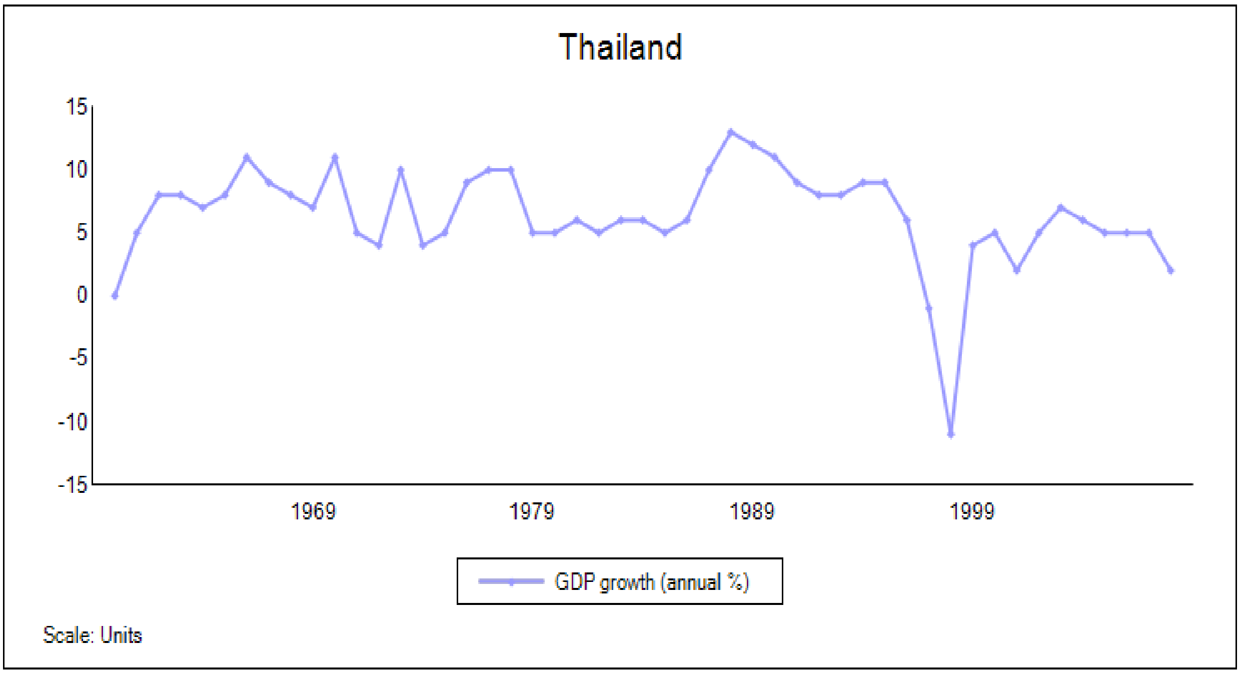
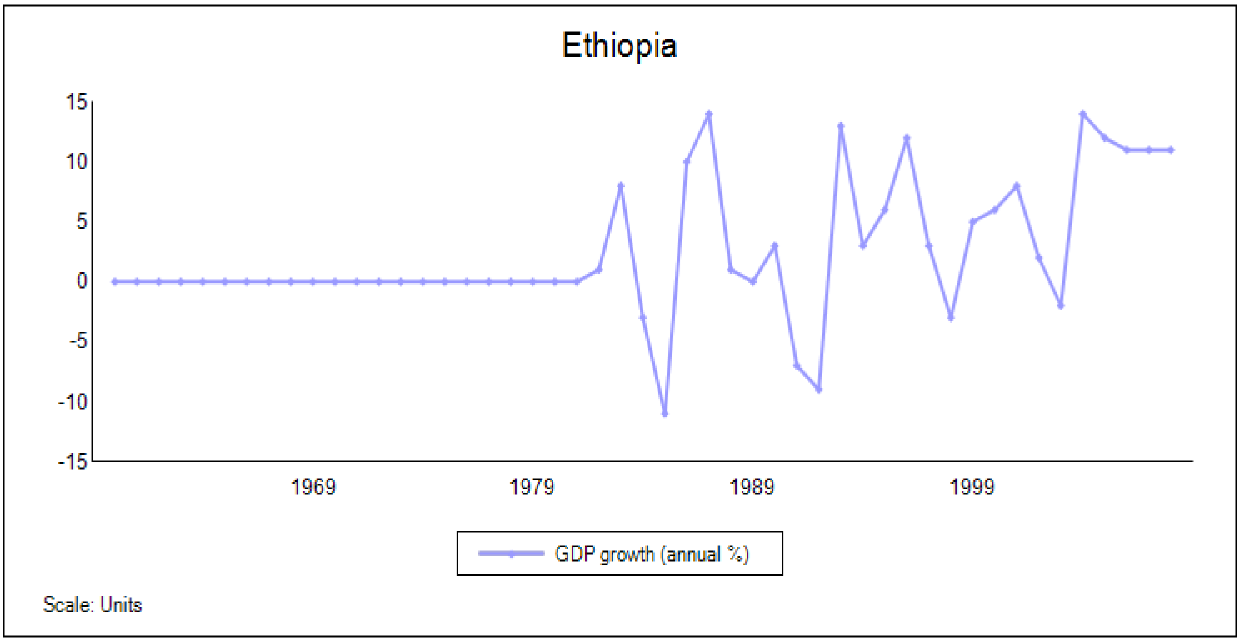
CHAPTER 3 | Ethiopia and Thailand compared

3.1 Ethiopian and Thai macro economies compared

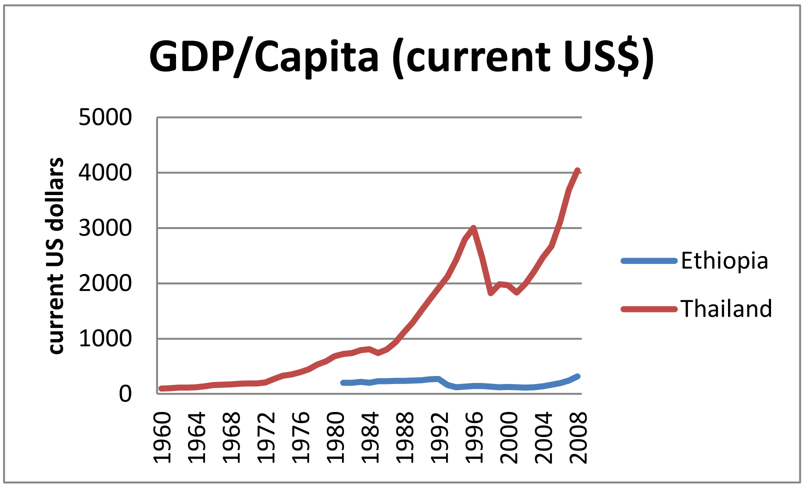
General economic developments





The data supplied by the World Bank shows that GDP was higher in Ethiopia until 1993, but growth was much slower than in Thailand. In 1993, Eritrea became independent, meaning that a large piece of the Ethiopian economy was cut off.

Growth has been less steady than in Thailand, where the Asian crisis of 1997/98 caused a major fall. Ethiopia transformed from a socialist country to a market-based country and realized annual growth rates of over 10 percent for the period 2003-2008. Due to the global financial crisis growth slowed down, but is still high.



For the past several decades, Thailand has experienced rapid economic growth that has transformed the country from a predominantly agrarian society to a newly industrialized economy. In the early 1960s, more than 80% of the population was engaged in agricultural activities, whereas in 1991, 'only' 60% worked in agriculture. It is remarkable how much the Thai industrial and service sector have expanded, accounting for 80% of Thailand's total GDP.[1] Compared to Thailand, 80% of Ethiopia's population still was employed in agriculture by the 1980's, accounting for 85% of exports.

Balance of payments

The balance of payments is the most important indicator for trying to establish the extent of deficits in a country. A major difference between Thailand and Ethiopia are the results on the balance of payments. Ethiopia is confronted with structural deficits on the balance of payments, while there were only four years since 1979 in which Thailand had to deal with a deficit. The Thai negative results can generally be connected to external shocks. When no external shock occurs, Thai policies result in positive results on the balance of payments.

Besides deficits on the Ethiopian balance of payments, Ethiopia is a heavily indebted country. Public debt constituted 79.6 percent of GDP in 2005/6 and domestic debt 30.7 percent. Because the World Bank approved the cancellation of a part of the Ethiopian debt in 2006, the debt has decreased substantially.

The situation in Thailand is almost opposite to that in Ethiopia. Up to 1996, Thai policies never resulted in domestic debt. After 1996, Thai domestic debt grew rapidly. One of the reasons that domestic debt has grown is the external debt. At the time of the Asian financial crisis, Thailand's external debt measured 109.2 US$. This number had to be reduced. The Thai government reduced the number to 69.9 US$, but the reduction of the number came at the cost of domestic resources and hence increasing domestic debt.

Trade balance

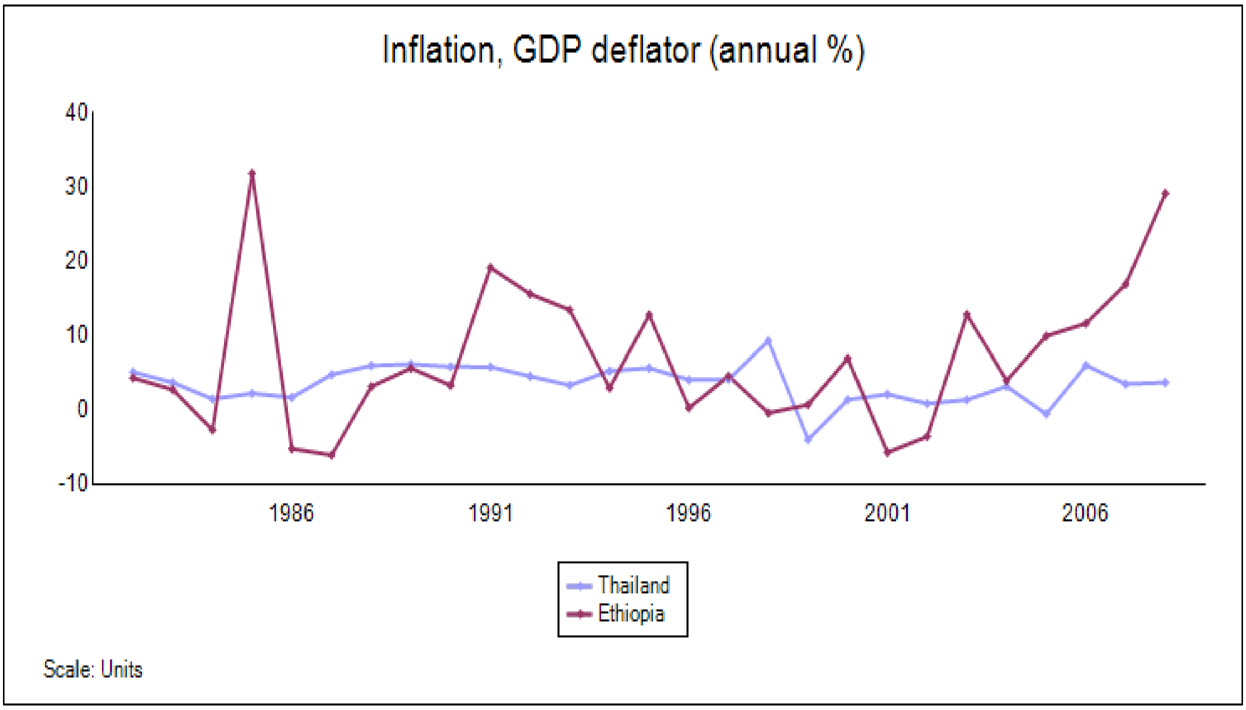
The financial crisis was also a turning point for Thailand's results on the trade balance. Until 1997, the results were negative. But from 1998 on, results on the trade balance were positive, except for 2005. Thailand was able to develop a strong economy with deficits on the trade balance, but is now also enjoying the benefits of positive results on the trade balance.

Ethiopia was not able to develop a strong economy like Thailand did, but also dealt with trade balance deficits over time. Especially in the 1970s and 1980s, growing economic imbalances in Ethiopia resulted in negative results on the trade balance. During these decades the deficit grew structurally. After the 1980s the results on the Ethiopian trade balance stabilized, but were still negative.

Inflation

The most important reason that the results on the Thai trade balance changed since 1998 is increased inflation. Thai goods were cheaper for foreign importers because of the lower value of the Baht, causing a rise in Thai exports. Apart from the Asian financial crisis, inflation in Thailand has structurally been below five percent. This is a result of conservative policies by the central bank, one of the strongest institutions in Thailand. Like the balance of payments, inflation only exceeded its structural level when external shocks were involved. During the Asian financial crisis at the end of the 1990s and during the oil crisis of 1974, the inflation rose to twenty percent.

The Ethiopian level of inflation is highly unstable, partly because Ethiopia does not have a strong central bank like Thailand. Data is available as of 1974. In 1985, Ethiopian inflation was 31.8%. This number supports the instable inflation in Ethiopia. In the years following 1985, the instability is underlined by the varying level of inflation. There are years in which inflation is over ten percent, and there are years where data shows a situation of deflation. The Birr was devaluated in 1992, to counter the monetary imbalances that were a result of the Derg regime. Unfortunately, the positive consequences of this devaluation were disappointing. Inflation continued to be unstable and since 2005 inflation is high and increasing.



Due to the strong central bank and conservative monetary policies in Thailand, the Baht is relatively stable. The Baht was devaluated in 1981 and 1984 to decrease the balance of payments deficit. The only moment where the exchange rate of the Baht showed severe instability was during the Asian financial crisis. In Ethiopia, exchange rates are determined on a daily basis via interbank transactions regulated by the Central Bank. The Birr is linked to the US dollar and remained stable at 2.07 Birr to the dollar for more than a decade. In January of 2009, it was devaluated against the strong dollar by 5%.

Since the 1990s, Thailand saw the development of a structurally lower interest rate. For decades the Thai interest rate was far higher than this five percent, even though this was the case all around the globe. We can therefore not speak of low long-term interest rates in Thailand. Negative real interest rates are an issue in Ethiopia, reducing the incentives for holding money. The real interest rate on saving deposits in Ethiopia was about 8 percentage points below the LIC average.

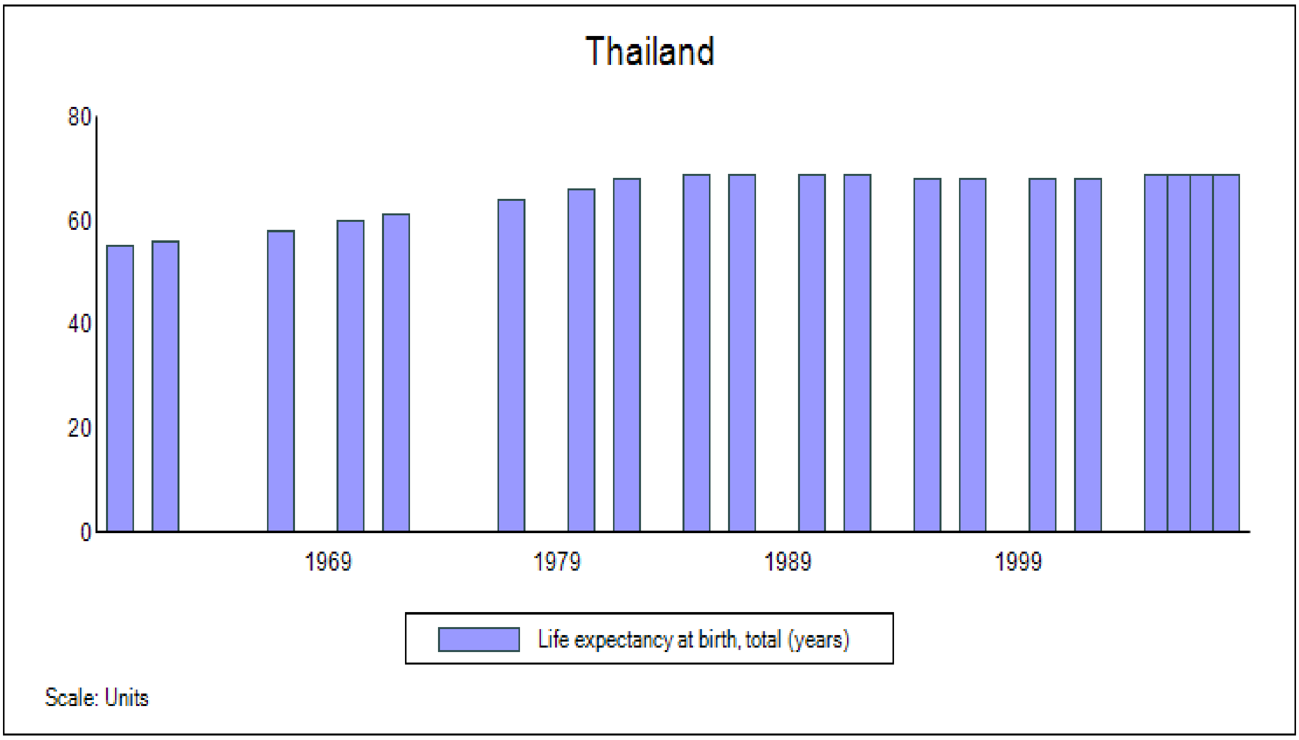
Adjustment

In 1974 the Ethiopian balance of payments collapsed due to famine and the oil crisis. The famines in the 1980s also led to the decimation of agricultural exports. The first Structural Adjustment Programme in 1993-1996 was to promote sustainable development and poverty reduction, by means of a structural reform of the economy towards a market-based system that included macro-economic stability, economic liberalization and fundamental structural reforms and was followed by similar programs.[2]

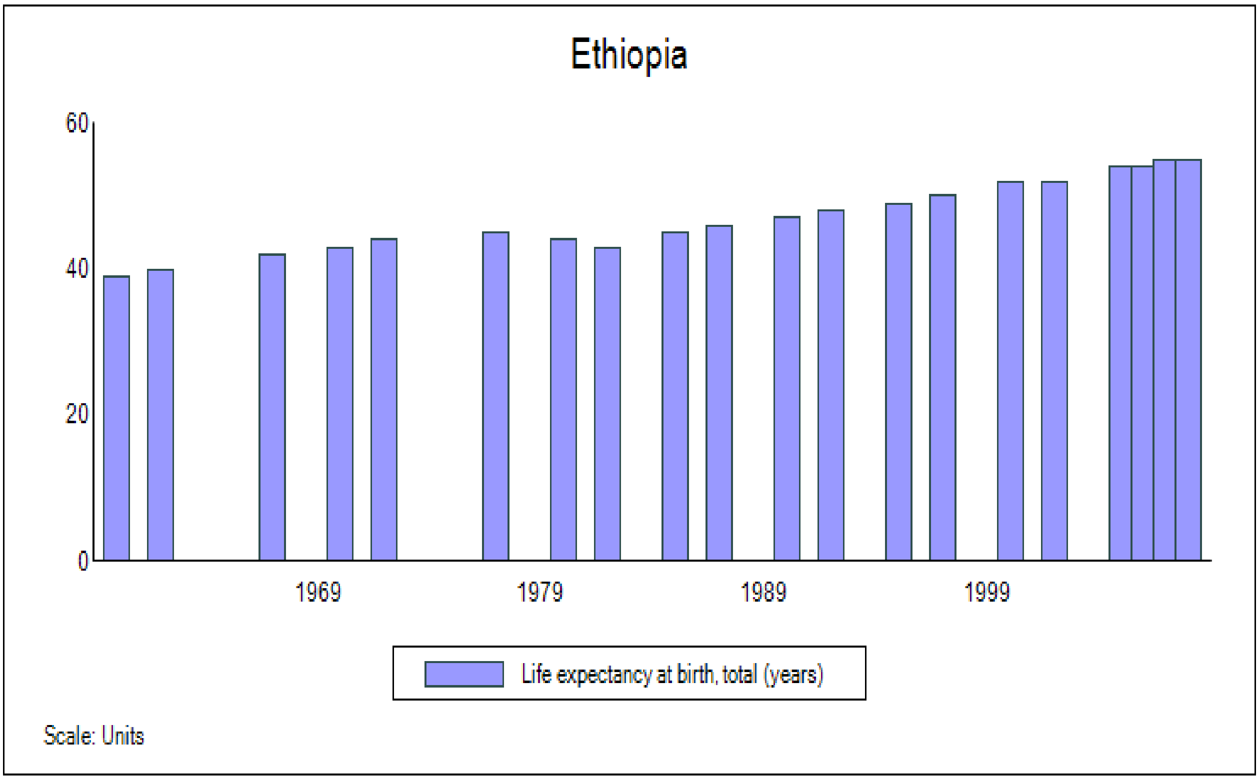
In Thailand, the major financial crisis was the Asian crisis which started when the Thai government decided not to devalue the Baht. Speculation increased, and the economy came to a halt. The government then decided to let the Baht float. In August 1997, the IMF offered a rescue package worth more than $17 billion, and later that month, another package worth $3.9 billion, both tied to neoliberal economic reforms. The rescue packages were paid back in 2003, four years ahead of schedule.

Poverty incidence and life expectancy

In Thailand, poverty incidence, measured as the percentage of the population living below the poverty line, fell dramatically: from 57% in 1962 to 9.6% in 2006.[3] In Ethiopia, 38.7% of the population lives below the poverty line currently. There has not been a steady decline, as recent figures show: from 46% in the early



1990s, rising to 56% in the beginning of this millennium, and then back down to 39% in the year 2009.[4] For both countries, this has not been uniform across regions and between rural and urban areas. In all regions, the incidence of poverty was much higher in rural villages than in urban areas.[5]



The differences between life expectancy between Ethiopia and Thailand are very large. As the graph shows, Ethiopian life expectancy has risen from 39 years in 1960, tot 55 years in 2008. The EPRDF government managed to bring the life expectancy at birth up from 47 years in 1990 to 55 years in 2008.Thailand starts with the age of 55 in 1960, and rises to 69 years in 2008. This figure shows the enormous differences in living standards and policy in both countries.

Conclusion

The above indicators show that Thailand is more stable where the macro economy is concerned. The Thai government has its worries. The years where there has been a shortage on the government cash balance and external shocks have been able to alter the results of important macroeconomic indicators. However, responses to external shocks have been fairly successful in the past.

Compared to Thailand, Ethiopia's macro economy has been fairly unstable. This is for example presented in the available data of inflation. External shocks are not required to offset important macroeconomic indicators. When there is a shock in Ethiopia, like undesirable weather conditions for example, the Ethiopian economy collapses because it is too weak to cope with the shock. Shocks like these immediately affect the current account, resulting in deficits. The government launched several Five-Year Plans to improve the results on the current account and increase the country's cash crops, but positive results have been minimal.

Market liberalization

(Agricultural) export

In both Thailand and Ethiopia agricultural products are important export products. In Thailand rice has been the major export crop, while in Ethiopia coffee takes up this position. Even though agriculture thus is vital to economic growth of both countries, both Thailand and Ethiopia have experienced restricting policies for these products. Although Thailand's economy has been principally free, some freedom was restricted by means of a rice premium in the 1950s. This tax on rice exports created a state monopoly on the trade in rice, and as a result the growth of rice production has declined. Moreover, the government pursued a diversification policy. In Ethiopia economic freedom was curtailed in a different way: the land was nationalized under the Derg regime with large effects on the export of the country. Peasants were allowed a plot not larger than 10 hectare, they were not allowed to grow what they preferred, and grain wholesaling became illegal. This stands in contrast to Thailand, where policies favored large landowners and rich farmers, while small farmers switched to less taxed crops due to the diversification policy. In 1988 the Ethiopian food markets were liberalized and the quota system for farmers, as well as the trade taxes, was removed. This also had positive effects on small-scale farmers.

Although non-agricultural export currently has a larger share in Thai export, rice is still an important export product. In fact, Thailand is still the world's largest rice exporting country. Ethiopia depends largely on coffee and to a smaller extent on other agricultural products for its export, while Thailand relies more on non-agricultural export. So although the starting position was rather alike, the government policies differed extensively and the development of the export sector of Thailand far exceeds that of Ethiopia.

Free trade agreements

Thailand has a number of bilateral and multilateral trade arrangements, of which TAFTA and ASEAN are the most important. Ethiopia is not yet a full member of a trade bloc, free trade agreements are therefore not relevant to Ethiopian development.

Import abundance

Ethiopia suffered from large resource gaps in the 1970s and 1980s. In the 1980s the imports and exports were relatively stable though, with imports (11-14 percent of GDP) always exceeding exports (6-8 percent of GDP). In the 1990s and 2000s the exports stayed relatively unchanged at 6.4 percent of GDP, while imports rose to 20.4 percent at the beginning of the millennium to 32.2 percent at the end of the first decade. Thailand also experienced a negative result on the trade balance from the 1950s until the Asian financial crisis of 1997. Since then the trade balance has remained positive, with the exception of 2005, but with large fluctuations.

Although both countries again seem to start from the same position of chronic trade imbalance, Thailand managed to bend its import abundance to export abundance, while Ethiopia's import abundance kept on growing. Therefore, foreign debt and interests on this debt place far greater strains on Ethiopian development. The admission to the HIPC initiative reduced some of this burden, but it still is an important factor in the explanation for the lack of development in Ethiopia. Thailand, by contrast, owes much of its development to this export abundance.

Key aspects domestic agriculture

In Ethiopia the most important economic restraint was the nationalization of land that started in 1975 and continues until this moment. The Derg regime also pursued a policy of villagization, wherein peasants were forced to move their houses to large artificial settlements. The result was that farmers had to walk long distances to reach their plots and food production fell.

In the post-communist period the government pursued a policy of resettlement of pastoralists along the major rivers and tried to transform their way of living into cash crop production. Thanks to the World Bank Pastoral project this policy is reversed, and pastoralists may remain shepherds. In the case of Thailand, the rice premium already mentioned under the heading '(agricultural) export' was the main restriction. Moreover, there was a compulsory rice reserve in place from 1973-1986.

There are again agreements between Thailand and Ethiopia in this category of market liberalization or restriction. The restriction of Thailand was merely towards its most important export crop – rice –, while Ethiopian restrictions had more to do with the land on which crops were cultivated, and the land where people were allowed to live. Recent structural adaption programs with the IMF and World Bank reversed Ethiopian policies, while Thai restrictions were already reversed in the late 1970s.

US stimulation to modernize

During the Vietnam War the United States had military bases in Thailand. The American presence and support led to a rapid modernization of the country. At its peak in 1969, 45,000 US army and air force personnel were present in Thailand. They all spent money on food, vacation, etc., which meant a boost for the Thai economy. Moreover, the US was eager to include Thailand as an ally in the Cold War and therefore it wanted to transform the Thai economy into a free-market economy. This stimulated the Thai industrial sector to develop. Besides this, with the American presence in Thailand large parts of its population were exposed to Western culture.[6]

Ethiopia also received economic support from the United States. In the Selassi era when the country had difficulties bridging the gap between saving and investments, the private sector received foreign investments, the majority of which came from the United States. The United States also helped to reduce Ethiopia's current account deficit by sending a third of all aid, while the World Bank's share to compensate this was also about one third.

Colonial status

Thailand has never been colonized, in contradiction to most of the countries in the region. Thailand is a monarchy, which is very popular and a stable factor in the country. Unlike most African countries, which have a long history of colonization, Ethiopia was shortly colonized by Italy. Mussolini invaded the country in 1936 and his fascist troops remained there until 1941, but besides this, Ethiopia has been independent.

Government status (stability)

Thailand had a military government in the 1950s, led by Sarit Thanarat (1957-1963). In the twentieth century, Thailand has experienced many instances of political instability. Thanks to the stability of the Royal Family, the support of the United States and the Central Bank of Thailand, the country could function rather normally. On the contrary, the type of government has been varied. Thailand has been ruled by military governments but also by parliamentary democracies. There have been many coup d'états that caused the replacement of one government by another.

After the period of Italian occupation, Ethiopia was ruled by an emperor from 1941 to 1974. Emperor Haile Selassi's power decreased quickly after a military coup, followed by another coup. From 1974-1991 Ethiopia had a communist government, the Derg regime led by Mengistu. This led to great changes for landowners and the commercial and industrial sectors. *Ethiopia Tikdem* (Ethiopian socialism) could not reduce the gap between rich and poor, there was no industrial policy, and there was hardly any economic development. This led to tensions, and from 1976-1978 the Red Terror against the Ethiopian People's Revolutionary Party took place. On top of this instability, Ethiopia was hit by a famine. The civil war between the suppressing Mengistu regime and its opponents eventually led to the overthrow of the communist regime and replacement by a Transitional Regime in 1991. Eventually, Ethiopia was led by a democratic government.

Rural Bias

Investment and expenditures in rural development

Thailand's government expenditure on agriculture has been around 10% of GDP since the 1970s. The Thai government has put a relatively large amount of money in agricultural research, next to government expenditure on infrastructure and irrigation. In addition to investing in public research, the Thai government has also implemented policies to support private research. However, through most of the past fifty years Thai governments have actually been biased against agriculture. Rural development was oppressed by directing away profits from the agricultural sector towards industrialization, by levying of export taxes on agricultural products and by confining rural aid to areas around Bangkok.

In Ethiopia government policy has always had an anti-pastoralist bias. However, since 2003 the Ethiopian government cooperates with the World Bank in the so called Pastoral Community Development Project, to seek to improve the livelihoods of pastoralists of the arid lowlands. The means to achieve its goals are fostering income growth, access to public services and facilitating better institutional, social and environmental conditions.

Gross Domestic Product agriculture

Both Ethiopia and Thailand are agricultural societies. In Thailand today more than 40% of the population works in agriculture. The share of the agricultural sector in GDP was 12.3% in 2009. The share of the population that works in agriculture and the share of agriculture in GDP have rapidly declined, since in the 1960s the percentages were 80% and 38.9%, respectively. The decrease in agricultural GDP has, however, been more than offset by the growth of GDP in the manufacturing sector.

In Ethiopia, agriculture accounts for 45% of GDP and 85% of employment. The low GDP rate was mainly due to poor performance in agriculture. In the 1980s, 80% of the population was employed in agriculture. The contribution to GDP of this sector decreased from 53% in 1974/1975. The contributions from industry and services increased, however, but could not compensate for the agricultural sector.

In Thailand, a large amount of the public expenditure directed towards agriculture was put into irrigation systems in the 1970s, however unequal the distribution of these irrigation systems may have been between regions. In Ethiopia, on the other hand, farmers were still heavily reliant on rain based agriculture; only 1% of all agricultural land was irrigated in the 1970s.

Poverty and income disparity

In Thailand, poverty incidence has fallen dramatically. In 1962, 57% of the total population lived in poverty and in 2006 this ratio had declined to 9.6%. However, this poverty reduction has not been uniform between rural and urban areas. In all regions, the incidence of poverty is much higher in rural villages than in urban areas. In 2000, the incidence of rural poverty was 20.1% while the incidence of urban poverty was only 5.8%. Today, almost 90% of Thailand's poor reside in rural areas.

In Ethiopia, the poverty incidence decreased dramatically from 46% in the early 1990s, rising to 56% in the beginning of this millennium, to 39% in the year 2009. However, a large income disparity is still apparent between the Addis Abeba area (including the surrounding highlands) and the rest of Ethiopia.

Development plans and other rural policies

In the early 1960s, Thai plans for the development of rural areas seem to have been relatively successful. However, when the government turned its attention to more problematic areas where growth was low, success was limited. The democratic government of 1974 tried to improve living conditions on the poorer areas, but this mainly benefited the population around Bangkok. The military coup d'état of 1976 ended the governmental focus on rural areas. Focus on rural areas was regained in the 1980s.

Government expenditure in rural areas was mainly concerned with industrialization. This, combined with the rice premium, effectively means a bias against agriculture exists in Thai rural policies. These trends have continued until the moment of writing.

In Ethiopia under Selassie, efforts were made by the central government to improve the lives of rural dwellers. However, the environment for change was not favorable. Starting conditions in the 1940s were dramatic and the hold of the central government on rural areas was minor at best. Local government intervened heavily in the plans which in turn were drawn up by officials with little expertise and resources.

Conditions did not improve under the communist Derg regime. Ideologically, the Derg were very much committed to the plight of the farmers, but they failed to express this in pro-rural policies. Farmers faced harsh regulations to insure steady food supply but this could not prevent a famine which would further deteriorate living circumstances. In an attempt to avert both civil war and a famine large relocation programmes were set up. The results were disastrous.

Under the democratic EPRDF there has been strong cooperation with the World Bank and the IMF in order to improve the lives of the rural poor. Several programs have been set up to increase agricultural output, and one of the effects has been increased exports of agricultural produce. Whether these trends hold for the long term cannot be said as of yet.

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Conclusion

The main objective of the Tracking Development project is to seek an answer to the question why Southeast Asia and Sub-Saharan Africa have diverged so sharply in development performance in the last 50 years.[1] The comparison between Thailand and Ethiopia has confirmed this divergence. Macroeconomic stability, rural bias and market liberalization have played a central role in this analysis. The question is whether policies in these areas explain the increased divergence between Ethiopia and Thailand over the last fifty to sixty years.

This is certainly true for the topic of macroeconomic stability. Thailand has strong macro-economic institutions, especially the central bank plays an important role in this perspective. The Central Bank of Thailand has monitored inflation and currency stability in Thailand over the entire analysed period. The Bank managed to develop policies that had a stabilizing effect. Compared to Thailand, Ethiopia's institutional structure looks weak, even though it is considered one of the strongest of Africa. The government issued Five-Year Plans, but these were hindered by several problems that can be related to a weak governmental structure and the absence of functioning institutions.

The influence of a functioning government and supporting institutions in Thailand has had its influence on most other macroeconomic indicators, such as the balance of payments and the current account. Ethiopia, on the other hand, realised unsatisfactory results on these accounts and has become a highly indebted country. Whenever Ethiopia has dealt with a negative external shock, such as weather conditions that ruin harvest, the economy automatically arrives at the brink of collapsing. When negative external shocks strike the Thai economy, negative results follow only temporary. The swift recovery of the Thai economy after an external shock shows its stability. External shocks in both countries can therefore not be qualified as turning points, because the shocks do not change the economies. The external shocks are, however, tests of both economies. Thailand passes these tests, Ethiopia fails them.

The lack of efficient governance in Ethiopia is confirmed in the area of rural bias. Both the Selassie and Derg regimes did not succeed in substantially improving farming conditions. This is especially unfortunate considering the high number of Ethiopians that are employed in agriculture. The past decade, Ethiopia has sought the cooperation of the World Bank, which has resulted in improved agricultural production and exports. If Ethiopia maintains its growth, the cooperation could prove to be a turning point for Ethiopia.

Policies in Thailand have been directed at industrialising the Thai economy and reducing the reliance on agriculture. These policies were initiated when the United States started funding Thailand at the beginning of the Cold War. This was a turning point for Thailand. So foreign funds and foreign influence in the shaping of policies could prove to be a mutual turning point for both Thailand and Ethiopia. Despite the transformation of the economy, Thailand still was one of the main exporters of rice at the start of the twenty-first century.[2] These policies have resulted in the stable economic growth of Thailand.

The substantial production of rice and the industrialisation of the economy have put Thailand in a position in which international trade can potentially play an important role in its economy. Most Thai rice is exported to the US and China, but Thailand is increasingly trying to position itself in the East Asian region, through its membership of the ASEAN and its trading relations with other members of this organisation. Ethiopia is not yet a member of an organisation that can be compared to the ASEAN. What Thailand and Ethiopia do have in common is a limited freedom in trade in agricultural products in the recent past. Agriculture in Ethiopia was nationalised and the trade in Thai rice production was limited by a rice premium.

There clearly are substantial differences between Thailand and Ethiopia related to the analysed topics. These differences favour Thailand as a successful developing country. The analysed indicators seem to translate to the poverty and income disparity. The development of the Ethiopian share of the population that lives in poverty is, again, unstable. After a rise of this number, it went down to a level of 39% in 2009. This is still a high number compared to the number in Thailand, which was 9.6% in 2006. This means a reduction of the share of the Thai population that lives in poverty by nearly 50%, compared to 1962.

Despite Thailand and Ethiopia sharing a past of non-colonization, their recent histories have created vast differences between the two countries in almost every thinkable indicator related to development. Thailand is structurally performing better than Ethiopia. It is not possible to point to a few positive turning points that are the cause of these differences. Consistent policies supported by functioning institutions secured Thailand's development and strengthened the Thai economy in times of external shocks, such as the Asian financial crisis. This is remarkable, considering Thailand's unstable political environment. In Ethiopia, the transition to the Derg regime was a negative turning point. During the Derg regime, the Ethiopian macro-economy collapsed.

Ethiopia lacks a stable environment to develop its economy like Thailand did. Policies have been inefficient and inconsistent. The failures in Ethiopia are structural and cannot be related to one or a few turning points. For the future, Ethiopia can only hope that its cooperation with the World Bank will prove to be a turning point and that it will continue to improve its economic results, just like the financial aid of the United States was a turning point for the contents and results of Thai policies.

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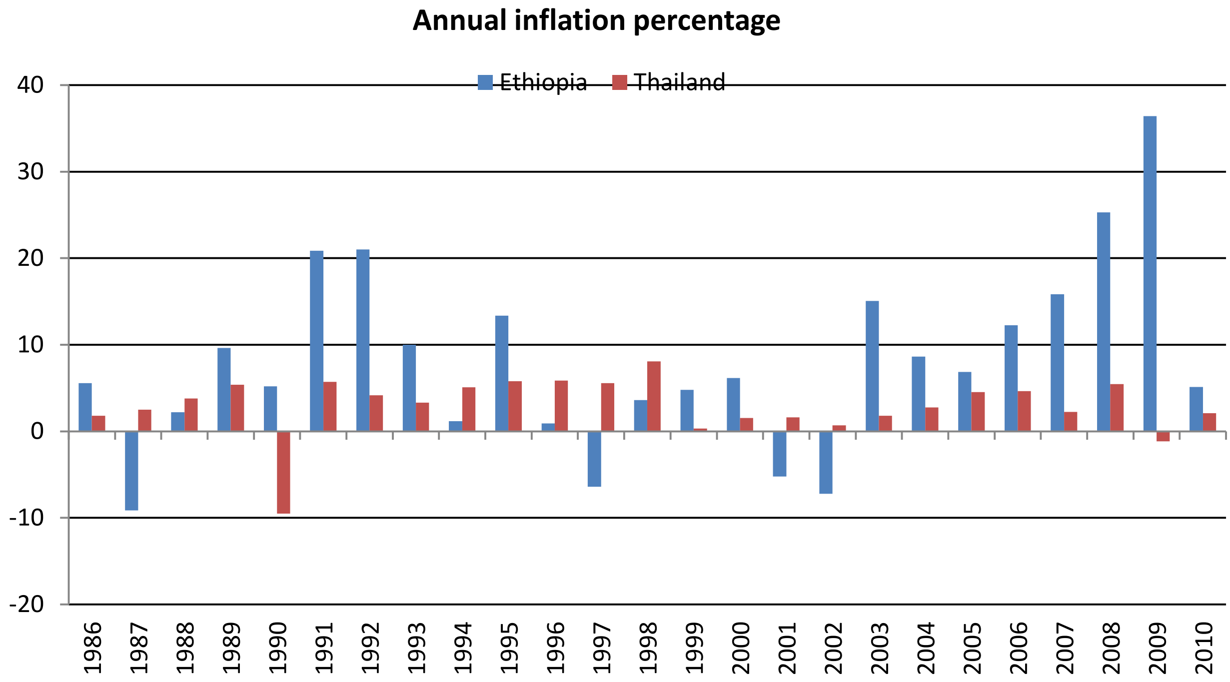
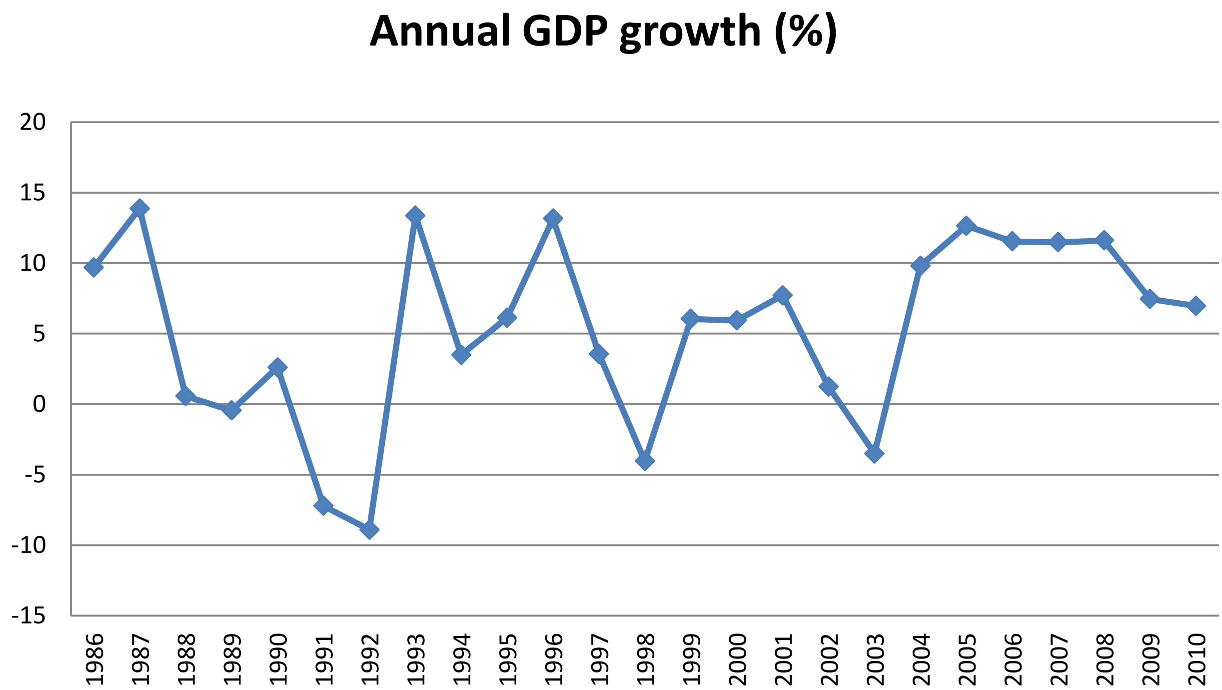
Annex



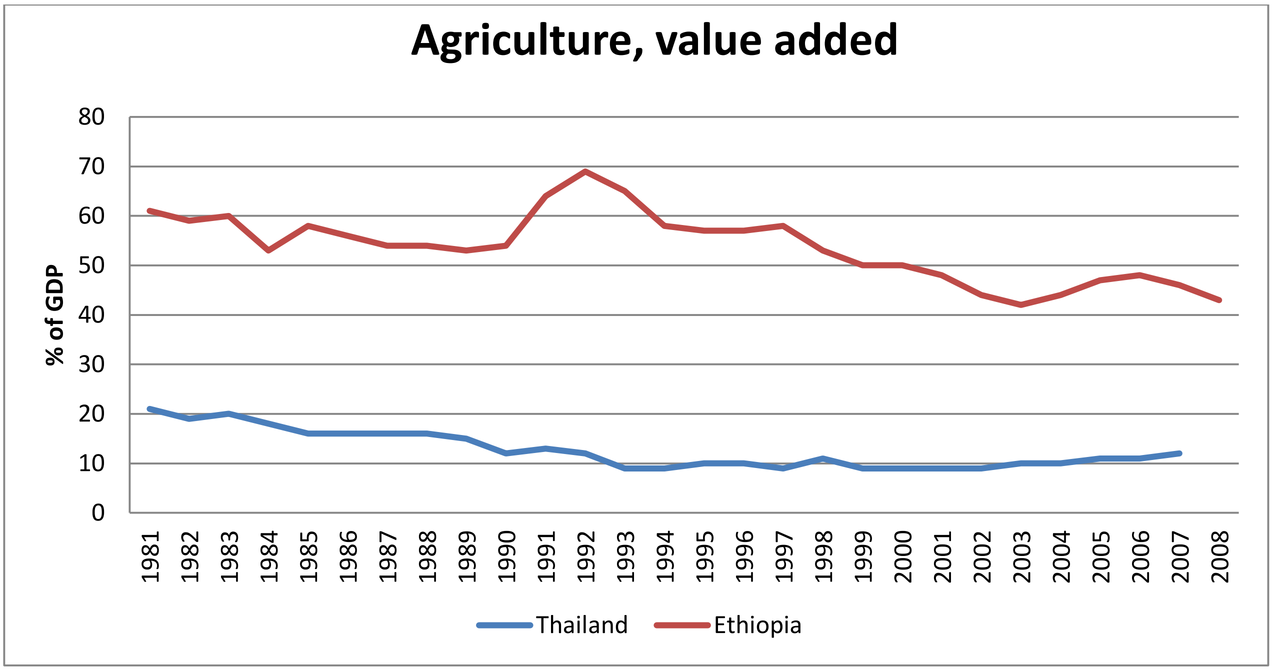


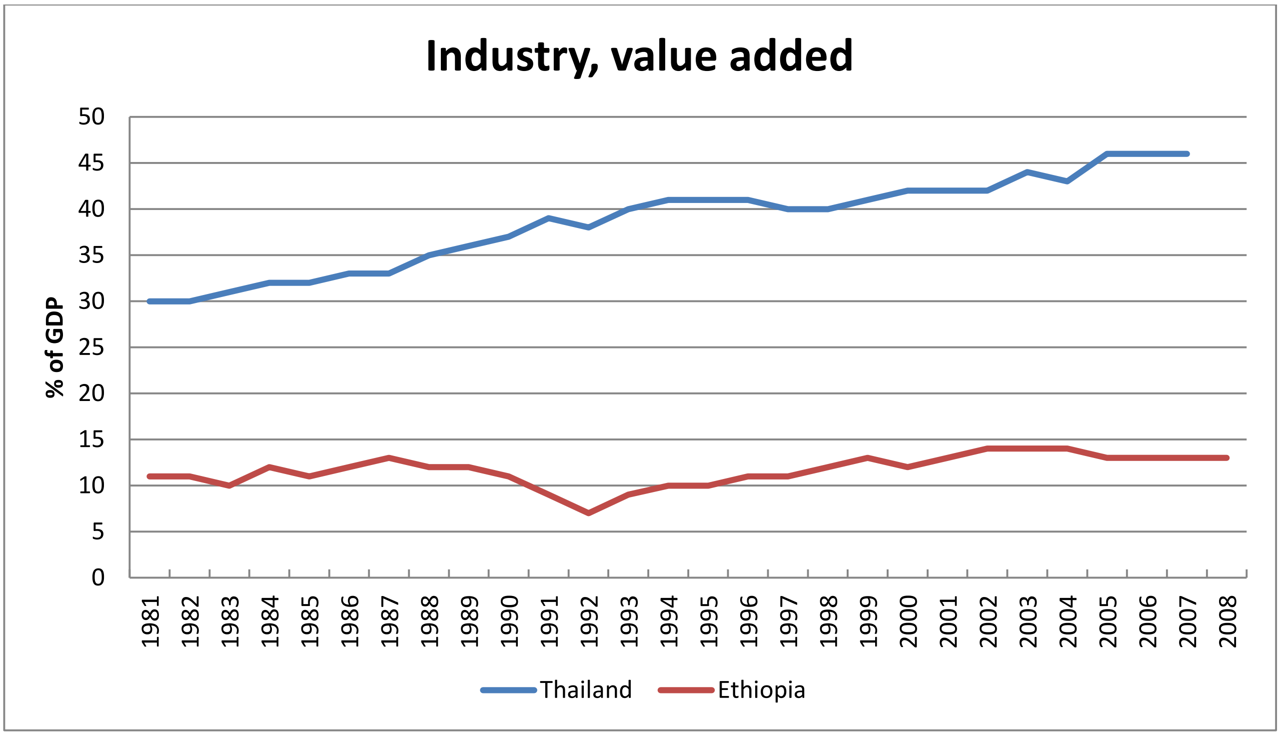
Source: International Monetary Fund, World Economic Outlook Database, October 2009 [www.imf.org]

Table 2.1: Evolution of Major Macro Aggregates (1962/63-1992/2000)

Gregorian Calendar	1962/63-1966/67	1967/68-1971/72	1972/73-1976/77	1977/78-1981/82	1982/83-1986/87	1987/88-1992/93	1992/93-1999/00
Ethiopian Calendar	1955-59	1960-64	1965-69	1970-74	1975-79	1980-84	1985-1992
Real GDP Growth Rate (%)	4.7	4.0	1.3	2.3	3.7	-0.01	5.7
Investment as % of GDP (%)	13.5	12.6	9.7	11.0	14.3	13.4	15.9
Saving as % of GDP	11.4	11.0	9.0	4.7	6.5	7.1	5.3
Exports & Import as % of GDP	24.1	22.1	26.5	29.1	26.0	20.2	37.8
Inflation[8] (%)		1.7	11.4	10.7	3.4	11.8	3.8
Export as % of Imports (%)	83.6	86.6	95.8	53.6	53.7	52.3	56.4

Source: Own Computation based on MEDaC (now MOFED) and CSA (various years), April 2002





Industry, value added
% of GDP
0
5
10
15
20
25
30
35
40
45
50
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
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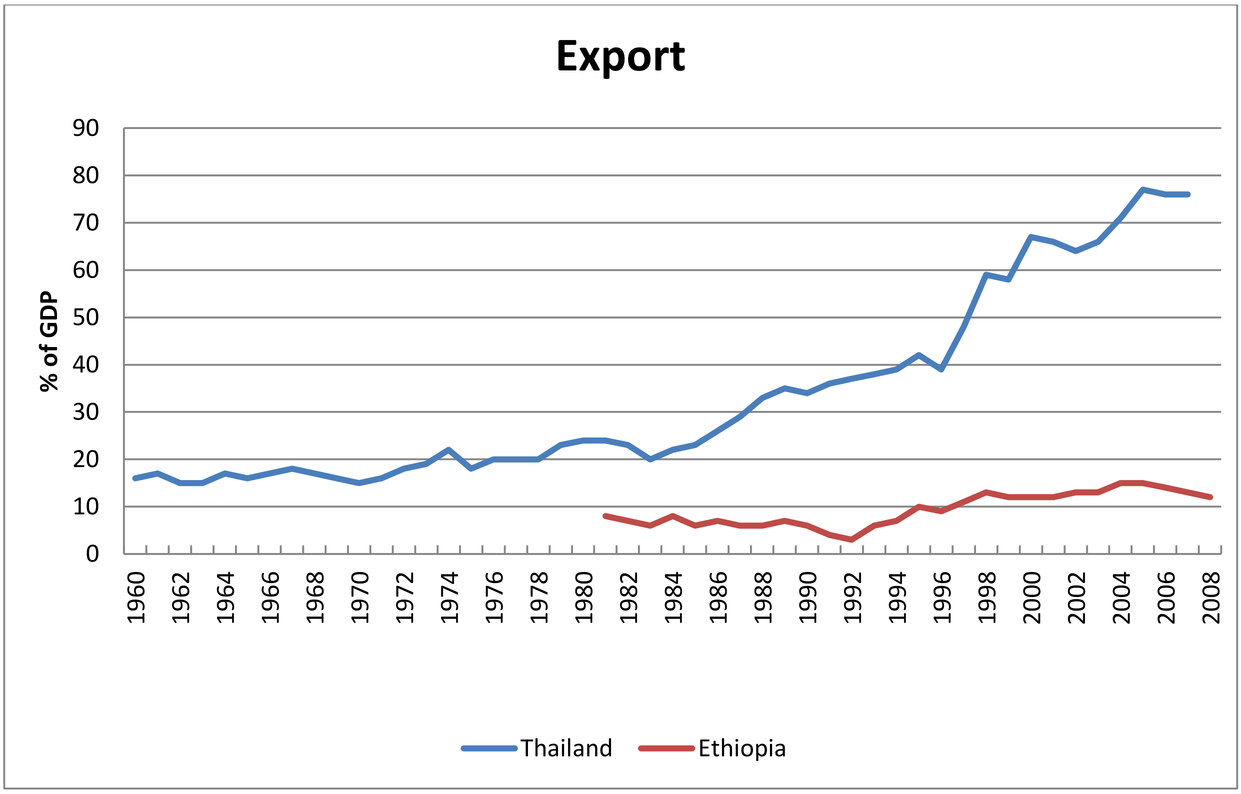
2007
2008
Thailand
Ethiopia



Export
% of GDP
0
10
20
30
40
50
60
70
80
90
1960
1962
1964
1966
1968
1970
1972
1974
1976
1978
1980
1982
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1986
1988
1990
1992
1994
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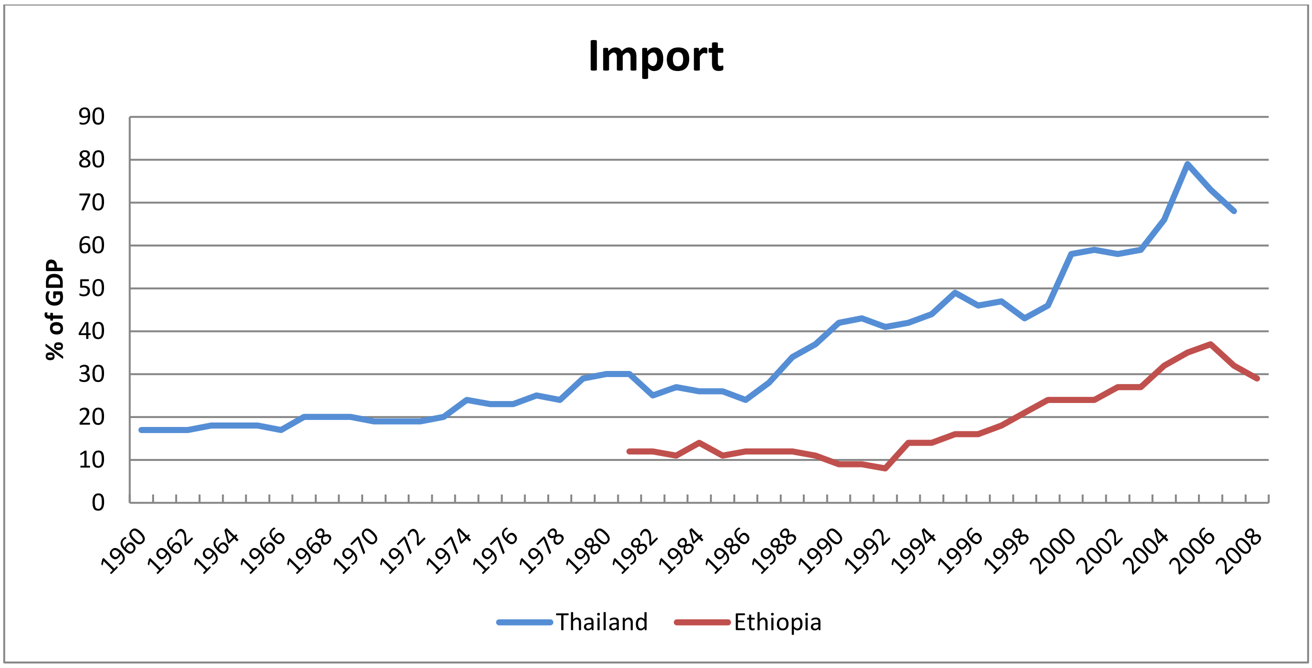
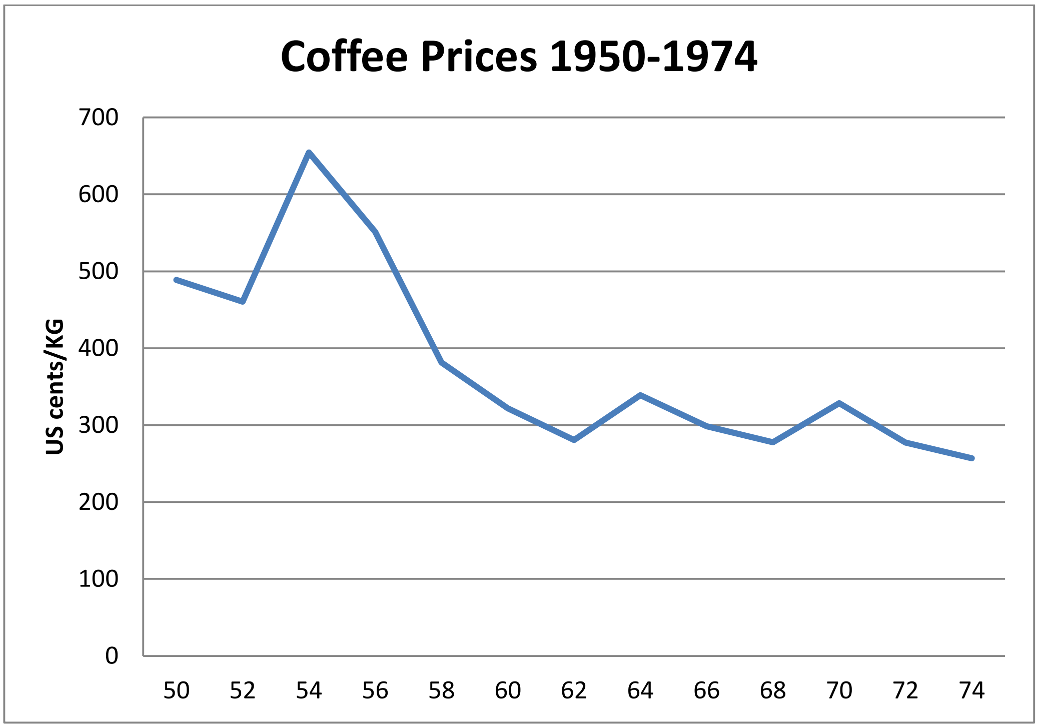
2006
2008
Thailand
Ethiopia



Data from IMF



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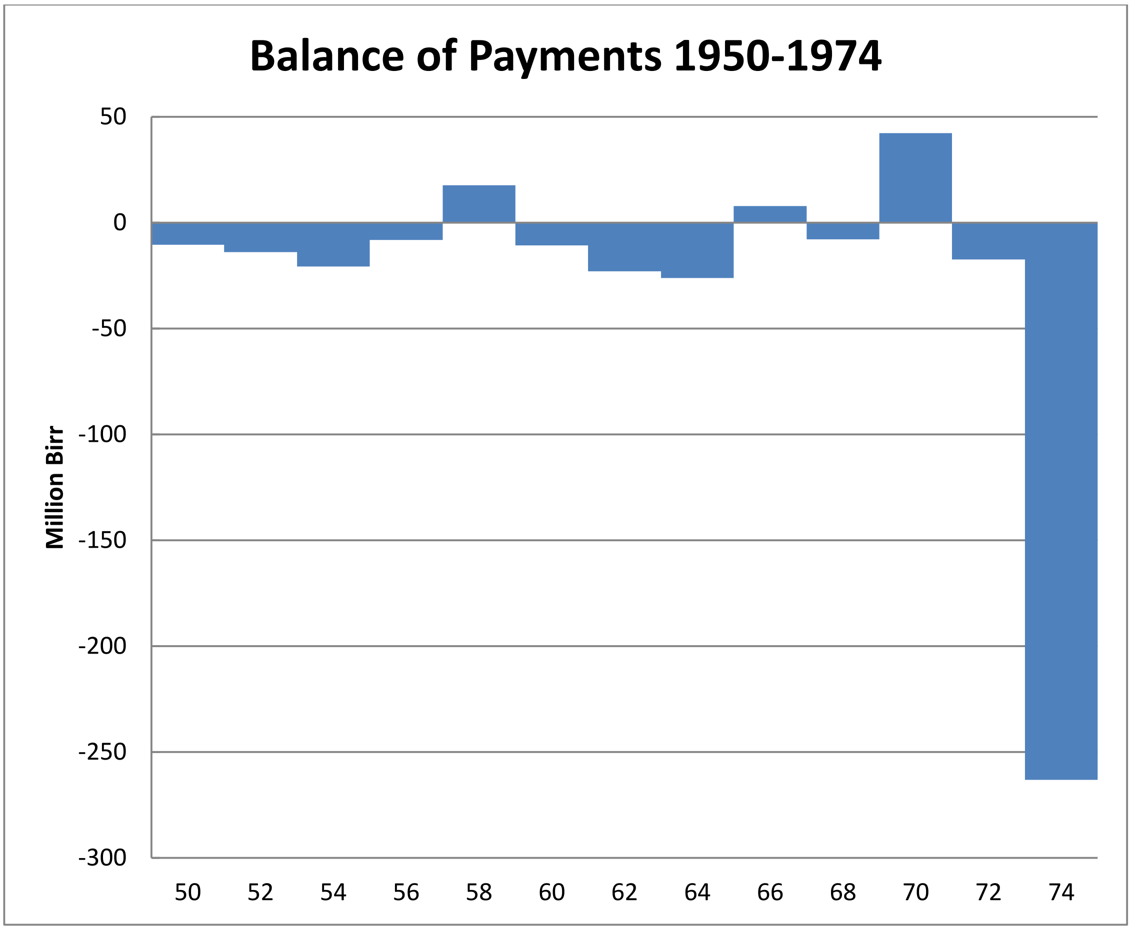

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