CHAPTER 6

Foreign Direct Investment in Ethiopian Land

The Good, The Bad, and The Lessons to be Learned

Genny Ngende

Abstract

The Structural Adjustment Program (SAP) is modeled after a neo-liberal approach to development, under which the conditions set forth favor more economic development rather than a holistic approach. This holistic approach caters for not only economic advancement but also provides room for the fulfillment of socio-political, cultural, and economic rights. By examining the new right and liberal schools of thought, it is posited that the conditions in relation to foreign aid are constructed in line with the former school of thought. The consequence of this is one-dimensional economic reform. In considering that development is a multidimensional process, it is argued that subsequent policies adopted are likely to be flawed.

Keywords

Ethiopia – Structural Adjustment Program – human rights – investment – foreign aid

1 Introduction

Consensus exists among social scientists that development is multidimensional, consisting of economic, political, and social aspects. These economic, political, and social aspects are articulated in an array of international human rights instruments. Indeed, this nexus implies that policymakers when dealing with national development ought to integrate economic, political, and social approaches – in other words, socio-economic and political rights. Development can be achieved in numerous ways; however for the purposes of this paper, foreign aid and foreign direct investment are considered and discussed in detail.

Since the Structural Adjustment Program (SAP) attempts to divorce itself from human rights, can one argue that this can have an adverse impact on the development process? In examining this, I will premise my argument on both the liberal and new rights school of thought, by stating that the trappings of
the SAP that have been identified by both schools of thought inevitably tarnish any subsequent program funded by the World Bank and International Monetary Fund (hereinafter referred to as the financial institutions). I will be examining development in the agricultural sector. It will be argued that the adoption of the Poverty Reduction Strategy Paper (PRSP) merely masks the underlying problem by focusing on the symptoms as opposed to the cause. Since foreign aid sets the economic scene for foreign direct investment, investments will operate based on policies funded by foreign donors. It would seem that the failure of any government policy or program lies with government officials. However, this paper argues that failure was destined from the onset because of the lack of human rights provisions in the SAP, thus undermining the development process.

Ethiopia will be used as a case study. Ethiopia is a particular case because, in spite of its high rates of economic growth, the nation suffers from widespread hunger and poverty. Interestingly enough, it is also heavily reliant on foreign aid, which accounts for 50 to 60 percent of its national budget. Further, there has been an exponential increase of foreign direct investment on the continent and Ethiopia has not been exempt from this phenomenon. Therefore, the following will be examined: foreign aid pattern in Ethiopia, the policies that have been adopted as result of foreign capital, the ramifications of those policies on foreign direct investment, and the individuals affected by such investment. In conclusion it will be argued that indeed a human rights-based approach to development is needed, in conjunction with a re-examination of the SAP.

2 The General Evolution of the Foreign Aid Narrative

Modern foreign aid can be traced back to colonialism, attached to which is the sense of responsibility to provide capital assistance. This sense of responsibility is not void of self-serving interests, nor can one completely deny an altruistic intent. A prime example of this can be found in the UK 1929 Colonial Development Act that made reference to Britain’s responsibilities to its colonies on the one hand, and on the other hand emphasized the need for trade.1 The connotation of foreign aid (and to a certain extent, what it denotes) had further been expanded by the Marshall Plan and Point IV of the Truman doctrine, which crystallized using foreign aid as a political tool.2 Offering an

---

1 Bethany Barratt, Human Rights and Foreign Aid: For love or money? (New York: Routledge 2008), 17.
2 Ibid., 18.