Trend And Pattern Of Ethiopia Export Performance

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Abstract

Exports are one of the oldest forms of economic transfer and occur on a large scale between nations that have fewer restrictions on trade such as tariff and subsidies. Export is considered as one of the very important factors that drive a country’s economic growth. The need for export as economic growth strategy has been accepted and it is also believed. The composition of exports from sub-Saharan Africa has remained relatively constant over time, among Ethiopia’s share in total world exports is still very low, in this regard Ethiopia’s external trade has major problems both on the supply side and on the demand side. Also Ethiopia’s export sector depends on a few agricultural products mainly coffee, oilseeds and pulses. However, the markets for these products are largely unstable in terms of volume, price and carry a high degree of risk and uncertainty as well as low income elasticity. According to UNCTAD report of 2016, in 2016 Ethiopia exported $1.71B, making it the 91st largest exporter in the world. And in 2016 Ethiopia imported $19.1B, making it the 57th largest importer in the world. Also the trade balance shows prolonged deficits because of the excess of import over export & this imply negative trade balance this is mainly the result of slowdown in export growth & particularly the decline in export earnings. Despite these unfavourable terms, the country is still dependent on agricultural exports but its impact on the economy has not been significant. The main effecting factors are level of infrastructure development, institutional quality, trade policies, and level of investment, exchange rate policy and etc..., to make considerable improvement on export sector in Ethiopia the government in power should attempt to diversify and promote exports in order to fully exploit the benefits of the sector and promote economic growth. Moreover action must be maintain to replace agriculture exports by the industrial exports; stable exchange rate policy has to be ensured in order to avoid the exchange-rate risks; Improving problems in infrastructure such as roads, air transport, railways and energy and other facilities; the government should further facilitates the financial sector development and foreign direct investment in promoting export diversification.

Key Words: Export, Export Growth, Ethiopia

1. Introduction

Today every society in the world strives to reach economic development. Achieving this economic development depends on many determinant factors. There are many macroeconomic variables that contribute to economic growth, of which export is considered as one of the very important factors that drive a country’s economic growth. The need for export as economic growth strategy has been accepted and it is also believed that expanding export capacity. The economics literature supports the contention that development requires economic growth particularly in developing countries in order to alleviate poverty, and greater access to world markets is perceived as a necessary condition for more rapid growth (Denekew, 2016). Developing countries like Asia have increased continuously their share in global trade over and the largest change of global trade share is in China through export diversification. The share of manufactures in total merchandise exports of developing countries has increased sharpens. Developing countries have also diversified their export markets. The share of developing country markets in total developing country exports also increased (World Bank, 2013).

The composition of exports from sub-Saharan Africa has remained relatively constant over time, with a relatively low share of manufacturing as well as services sector exports and high shares of all other export categories (agriculture, food, fuel and ores and metals). And those primary goods exports face declining terms of trade due to their low value added to manufactured goods and the
constant fluctuations in world prices (Beshir, 2010). Ethiopia’s share in total world exports is still very low, in this regard Ethiopia’s external trade has major problems both on the supply side (its dependency on few primary products, and characterised by large fluctuations in volume) and on the demand side (a low income elasticity for the type of commodities that Ethiopia exports, declining prices for its exports, and limited destinations for Ethiopian exports). Ethiopia’s export sector depends on a few agricultural products mainly coffee, oilseeds and pulses. However, the markets for these products are largely unstable in terms of volume, price and carry a high degree of risk and uncertainty as well as low income elasticity (Negussie & Ashebir, 2016).

According to UNCTAD report of (2016) still Ethiopia has a potential to increase its foreign exchange earnings from its export. For instances, the country has exploitable potential in, among other, coffee, livestock and sugarcane sector. In line with this, Ethiopia is among very few countries which can produce and supply organic coffee to the world market. Moreover, In 2016 Ethiopia exported $1.71B, making it the 91st largest exporter in the world. During the last five years the exports of Ethiopia have decreased at an annualized rate of -65.861%, from $2.88B in 2011 to $1.71B in 2016. The overall objective of this study is to assess the trend and determinates of export in Ethiopia. Especially the study will try to:-To review the trend in structure and performance of Ethiopian export trade sector, to review the major determinate of total export in Ethiopia and to identify factors constraint export growth in Ethiopia.

The design of this review study is involves a qualitative and quantitative analysis on the trend and determinate of export in Ethiopia. The data collected, interpreted and evaluated here come from secondary data sources like WB, UNCTAD, NBE, and ERCA. Different authors and researcher have written on the trend and determinate of export; many government and non-governmental agencies have produced reports on export performance of Ethiopia. All these sources have been used to assess the structure, performance, determinate and constraint of export growth in Ethiopia.

2. Discussion
2.1. Definition and Concept of Export

According to Investopedia updated 2015 definition, Exports are one of the oldest forms of economic transfer and occur on a large scale between nations that have fewer restrictions on trade such as tariff and subsidies. Exports are the goods and service produced in one country and purchased by citizens of another country, it doesn’t matter what the good or service is. It doesn’t matter how it is sent. It can be shipped, sent by email, or carried in personal luggage on a plane. If it is produced domestically and sold to someone from a foreign country, it is an export. Also exports are a crucial components of a country economy not only do export facilitates international trade; they also stimulate domestic economy activities by creating employment, production and revenues.

2.2. Trend in Export Performance of Ethiopia

Ethiopia is one of the emerging countries, its economic growth and development is highly linked with the development of agricultural sector. During the Imperial period the government had been trying to enhance and accelerate economic growth through national development plans. During the Imperial period the country’s external trade strategy was oriented to import substitution strategy. The regime had designed three consecutive development plans starting 1958 which generally emphasized on industrialization, construction of infrastructure especially road, measures were also taken to promote export diversification to reduce export (economic) instabilities and to finance the country's deficit. Even though the regime has tried to employ partial part of permissive and positive policies such as income tax holidays, subsidies, simplification of export licensing, credit, improving infrastructure, improving quality of the export product and tried to revise tariff rates. But these improvements could not promote exporters and the expected achievement had been so poor or limited that it remained unsatisfactory (Kiros, 2012).

During the period of the Dergue regime, the country’s export commodities also mainly depend on few traditional items. The growth rate of real exports was lower from the rate recorded in the previous regime. This can be largely attributed to the poor performance in the export of pulses and
oilseeds. The proceeds from the export of the commodity, which was growing at an average annual rate of 13.1 percent during the imperial regime, declined to 2.4 percent during the Derge regime. Generally during this regime the export sector shown declining trends and export diversification had been worsening (Kiros, 2012).

According to export development strategy (2000) since 1991, Ethiopian government embarked on extensive reforms to achieve broad based economic growth in a stable market economy. Price controls and subsidies were removed and the exchange rate was devaluated. The financial services sector was also opened up to competition from the private sector and other significant reforms. This reforms delivered comparable change in export performance as well as in economic growth. In 1998, EPRDF designed export development strategy for the development of export sector. The main objective of the strategy was to maintain the country’s long-term economic growth and to attain the growth rate as well as to maintain macroeconomic stability. Also the EPRDF government tries to maximum the gain from export sector under some policy action and plan like through GTP one and some improvement had been made however the change is not as expected. The main reasons for the weak performance of export earnings is generally attributed to inadequate supply of the required quantity, quality and type of export products and deterioration in international prices of major commodity like coffee and gold. Inadequate supply of export products is associated with low level of productivity in agriculture and low level of investment in manufacturing sector. Therefore, to expand export growth and significantly increase export earnings, priority attentions need to be provided for agricultural productivity and investment in manufacturing sector.

Table 2.1: Share and structure of major exports (% of to total) under the three regime

<table>
<thead>
<tr>
<th>Product</th>
<th>Imperial Regime</th>
<th>Derge Regime</th>
<th>EPRDF Regime</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee</td>
<td>56.2</td>
<td>53.5</td>
<td>54.9</td>
</tr>
<tr>
<td>Hides &amp; skin</td>
<td>11.3</td>
<td>10.6</td>
<td>10.9</td>
</tr>
<tr>
<td>Oil seeds</td>
<td>8.9</td>
<td>10.1</td>
<td>9.5</td>
</tr>
<tr>
<td>Pulses</td>
<td>7.9</td>
<td>8.6</td>
<td>8.3</td>
</tr>
<tr>
<td>Chat</td>
<td>3.5</td>
<td>1.1</td>
<td>2.3</td>
</tr>
<tr>
<td>Others</td>
<td>11.6</td>
<td>16.1</td>
<td>13.8</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Computed based on row data obtained from Ethiopian Revenue and Custom Authority (ERCA).

As we have seen from the table above the structure of the Ethiopian export is not that much differ from one regime to the other regimes. Coffee continues its domination over the other export items. The performance of export sector suffered from stagnation and also observed a declined trend especially during the Derge regime. The share of non-coffee exports was still limited and this impedes the profitability and competitiveness of the export sector. The constraints of exports growth are directly or indirectly hampered the overall the country’s economic development and growth. As I mention in the above in each three regime the government tried to implement different export promotion strategy on their respective plan however it is not satisfactory on the achievement.

According to UNCTAD report of 2016, In 2016 Ethiopia exported $1.71 billion, making it the 91st largest exporter in the world. And in 2016 Ethiopia imported $19.1 billion, making it the 57th largest importer in the world. During the last five years the imports of Ethiopia have decreased at an annualized rate of -4.435%, from $8.83B in 2011 to $19.1 billion in 2016. The most recent imports are
Netherlands was the third important market in Europe having Ethiopia’s exports mainly flowers, coffee, and textiles & garments. On the market primarily for coffee, textiles & garments, and flowers. The following figure shows the merchandise composition of export and its diversification through different commodities in 2015-16.

Source: own computation based on IMF Data

From the above bar charts similarly to previous year experience the Ethiopia export sector dominated by coffee, oil seeds and edible vegetables they accounted 26 percent, 17 percent and 17.1 percent respectively.

With respect to the destination of Ethiopia’s exports, according to UNCTAD report of 2016 about 38.75 percent of Ethiopia’s total merchandise export proceeds were derived from Asian markets. Within the Asian countries, the shares of China, Saudi Arabia, United Arab Emirates, and The major exports to China include oilseed, leather & leather products, Coffee, meat & meat products, live animals, flower, oilseeds and cereals were exported to Saudi Arabia. Meat & meat products, live-animals, pulses, flower, food and coffee constituted the major export products to United Arab Emirates.

Approximately 28.58 percent of the Ethiopian exports went to European countries of which Switzerland was the largest market accounting it largely imported gold and coffee. Germany, it was the second major export destination market primarily for coffee, textile & garment and flower. The Netherlands was the third important market in Europe having Ethiopia’s exports mainly flower, coffee, vegetables and oilseeds.

About 23.87 percent of Ethiopia’s total export proceeds were to African countries of which Somalia, Djibouti, Sudan and Egypt. Exports to Somalia included mainly chat, vegetables, live-animals and fruits while chat, vegetables, live-animals, fruits and pulses were exported to Djibouti. In the review period, Sudan imported coffee, pulses, spice and cereals. Export to the America comprised 7.8 percent of the country’s total export proceeds during 2016. The US imported mainly coffee, leather & leather products, oilseeds, textile & garment, mineral products, food and flower while coffee was the primary export to Canada.
2.3. Export and Economic Growth in Ethiopia

The relationship between export & economic growth is an area that has been given much attention by economists. The results of different studies have broadly classified economists into those that support export growth has a positive impact & those that doubt the existence of such relationship. According to the new orthodoxy, promoting exports are beneficial for both developed & DCs for many reasons, including the following they generate a greater capacity utilization; they take advantage of economies of scale; they bring technological progress; they create employment & increase labour productivity; they improve allocation of scarce resources; & they increase the TFP & consequently the well-being of the country (World Bank, 1993).

From the above figure we can understand that the Ethiopia import become more and more and it result severe trade balance especially after 2006. at initial stage from 1992-2002 the growth of import is not that much higher than of the total export however starting from 2006 the rising in total import is become at increasing rate but when we see the export it increase at decreasing rate that means it doesn’t registered significant change for the last ten years.
Source: own computation based on UNCTAD data.

From the above graph in 1998 the growth rate of export is very low & negative this imply that during that period production is decline so that export amount is decline this in turn make the country worse and negative balance of trade & at this period gross domestic product is highly affected. However in beginning of 2000s export growth rate more or less constant. When we come to the period of 2004 and 2010 export shows improvement it imply that there is relative change in terms of trade, in domestic production, in investment; and export promotion strategy’s, is the major reasons and so it will improve the trade balance of the country.

2.4. Trend in Ethiopian Trade Balance

Source: Own computation based on UNCTAD data base

From the above figure Ethiopian trade balance shows prolonged deficits b/c of the excess of import over export & this imply negative trade balance this is mainly the result of slowdown in export growth & particularly the decline in export earnings. During the past ten years, a rise in total exports was not proportionate with the rise in import bill; as a result deficit in trade widened.

Table 2.2: Trade balance with major trading partner from 2006-07 to 2012-13.

<table>
<thead>
<tr>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Djibouti</td>
<td>-54.8</td>
<td>485.2</td>
<td>463.2</td>
<td>648.5</td>
<td>1001.5</td>
<td>1209.3</td>
<td>1444.5</td>
</tr>
<tr>
<td>Kenya</td>
<td>-401.1</td>
<td>-281.6</td>
<td>-238.7</td>
<td>-346.7</td>
<td>-351.6</td>
<td>-324.7</td>
<td>-326.0</td>
</tr>
<tr>
<td>Germany</td>
<td>-426.8</td>
<td>-670.6</td>
<td>-395.3</td>
<td>90.9</td>
<td>2196.3</td>
<td>1620.3</td>
<td>2075.0</td>
</tr>
<tr>
<td>Italy</td>
<td>-2811.5</td>
<td>-2587.3</td>
<td>-4273.6</td>
<td>-4634.5</td>
<td>-4074.3</td>
<td>-5241.3</td>
<td>-5781.4</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-122.1</td>
<td>448.8</td>
<td>579.3</td>
<td>1123.7</td>
<td>1196.9</td>
<td>1618.4</td>
<td>1940.7</td>
</tr>
<tr>
<td>UK</td>
<td>-481.5</td>
<td>-582.5</td>
<td>-112.8</td>
<td>-352.6</td>
<td>-576.0</td>
<td>-434.9</td>
<td>-419.2</td>
</tr>
<tr>
<td>USA</td>
<td>-1176.1</td>
<td>-1840.6</td>
<td>-3359.4</td>
<td>-5719.5</td>
<td>-2452.9</td>
<td>-4245.1</td>
<td>-4633.6</td>
</tr>
<tr>
<td>China</td>
<td>-6968.1</td>
<td>-9278.8</td>
<td>-11730.0</td>
<td>-16260.6</td>
<td>-16179.1</td>
<td>-19912.0</td>
<td>-22541.3</td>
</tr>
<tr>
<td>Total TB</td>
<td>-12441.9</td>
<td>-14307.4</td>
<td>-19067.2</td>
<td>-25650.6</td>
<td>-19239.3</td>
<td>-25710.0</td>
<td>-28241.3</td>
</tr>
</tbody>
</table>

Source: NBE Report
From the table-2.2 describe how Ethiopians trade balance looks like with major trade partner, and as we can see from the table the total trade balance starting 2006/07- up to - 2012/13 the current account become in deficit side. Also except from Netherlands, Djibouti and somewhat Germany there is some improvement, the average from all partner become worse. Therefore the government of Ethiopia must take action to improve the negative relationship with trade partner to handle the deterioration in the balance of payment equilibrium.

3. Conclusion and Policy Implication

Ethiopia has for long been dependent on primary commodities to partially meet its foreign exchange earnings. However, foreign exchange earnings attained from these traditional products which are mainly agricultural commodities could not match with the highly increasing demand. Also the trade balance shows prolonged deficits b/c of the excess of import over export & this imply negative trade balance this is mainly the result of slowdown in export growth & particularly the decline in export earnings. Despite these unfavourable terms, the country is still dependent on agricultural exports but its impact on the economy has not been significant. It is certain that the exports of primary goods are less competitive on the world market and weigh less against manufactured goods exported by developed countries resulting in deteriorating terms of trade.

According to UNCTAD report of 2016 about Ethiopia’s exports remain concentrated in basic commodities like coffee, oil seeds and edible vegetables they accounted 26 percent, 17 percent and 17.1 percent respectively. With respect to the destination of Ethiopia’s exports, 38.75 percent of Ethiopia’s total merchandise export proceeds were derived from Asian markets. 58 percent of the Ethiopian exports went to European countries, about 23.87 percent of Ethiopia’s total export proceeds were to African countries and the America comprised 7.8 percent of the country’s total export.

In Ethiopia, owing to structural problems and policies that were pursued by the different regimes that came to power, the performance of the export sector has been less satisfactory. The causes of low export performance in Ethiopia start from low investment in export sector.

To make considerable improvement on export sector in Ethiopia the following measures and actions should be taken by government of Ethiopia. The government in power should attempt to diversify and promote exports in order to fully exploit the benefits of the sector and promote economic growth. It is obviously clear that there is a strong relationship between export performance and economic growth. It is of critical importance to maintain a high and sustainable economic growth rate. Evidence has shown that a sustainable growth patterns promotes exports.

The country need to replace agriculture exports by the industrial exports, which command reasonable and stable prices in the world markets. Moreover, the industrialisation will reduce dependence on imports by initiating the process of import substitution. Also stable exchange rate

**Source:** Own computation based on NBE Data

![Figure 2.6: Trade balance with major trading partner](image-url)
policy has to be ensured in order to avoid the exchange-rate risks associated with the assets, import prices and profit considerations of direct investor in developing countries. Therefore, efforts need to be made to build the foreign exchange reserve status of the country through enhancing export growth.

Moreover the government should further facilitates the financial sector development and foreign direct investment in promoting export diversification because FDI encourage exports by boosting domestic capital for exports, serving to transfer technology and new product for exports, making access to new and large foreign markets easily and improving technical and management skills. Lowering barriers to firm’s entry and reducing international trade cost, also constitute an important mechanism that help to diversify export markets. In sum, the above measures must be maintain in order to reduce and eliminate the constraints deterring the performance of agricultural export sector are somewhat general. A closer look and detailed investigation is very important for achieving economic growth.

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