ETHIOPIA'S EXPORT STRATEGY:

KEY FEATURES AND MAJOR INFLUENCING FACTORS

A PRESENTATION AT THE REGIONAL EXECUTIVE FORUM ON NATIONAL EXPORT STRATEGIES
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I. Structure and Performance

The level of development of the economy, resource endowments, policies and development strategies pursued are some of the determining factors of the export structure of a country. Being underdeveloped economy that heavily depend on agriculture, the structure of Ethiopian export is dominated by agricultural products which used to account for more than 90% over a long period except the last two years when the export share of the industrial sector showed relative increases. The share of export earnings generated by the industrial sector were 15.2% in 1999/2000 and 26.5% in 2000/01. This is attributed from improved industrial activities, besides the decline of world prices for primary commodities, specifically coffee.

Coffee has been the dominant export commodity for the last five decades making-up on average 55-60% of total exports. Recent export structure and performance is indicated as follows.

Table 1: Value of Export by Commodity Groups (‘000 Birr)

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<tbody>
<tr>
<td>Coffee</td>
<td>2,307,394</td>
<td>2,889,650</td>
<td>2,112,713</td>
<td>2,133,646</td>
<td>1,454,569</td>
<td>2,179,594</td>
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<tr>
<td>Hides &amp; Skins</td>
<td>372,253</td>
<td>347,696</td>
<td>243,052</td>
<td>286,460</td>
<td>616,921</td>
<td>373,276</td>
</tr>
<tr>
<td>Oil Seeds</td>
<td>74,016</td>
<td>314,395</td>
<td>271,235</td>
<td>230,904</td>
<td>255,648</td>
<td>229,240</td>
</tr>
<tr>
<td>Pulses</td>
<td>87,263</td>
<td>103,867</td>
<td>111,454</td>
<td>87,505</td>
<td>73,264</td>
<td>92,671</td>
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<tr>
<td>Chat</td>
<td>217,958</td>
<td>272,606</td>
<td>444,988</td>
<td>567,890</td>
<td>590,952</td>
<td>402,679</td>
</tr>
<tr>
<td>Fruits &amp; Vegetables</td>
<td>40,226</td>
<td>32,421</td>
<td>29,221</td>
<td>28,682</td>
<td>36,892</td>
<td>33,488</td>
</tr>
<tr>
<td>Meat</td>
<td>28,269</td>
<td>29,340</td>
<td>31,644</td>
<td>32,708</td>
<td>14,065</td>
<td>27,205</td>
</tr>
<tr>
<td>Live Animals</td>
<td>12,306</td>
<td>10,562</td>
<td>5,724</td>
<td>14,173</td>
<td>1,503</td>
<td>8,854</td>
</tr>
<tr>
<td>Spices</td>
<td>35,329</td>
<td>12,280</td>
<td>23,704</td>
<td>28,555</td>
<td>27,725</td>
<td>25,519</td>
</tr>
<tr>
<td>Natural Gum</td>
<td>15,433</td>
<td>18,225</td>
<td>16,734</td>
<td>20,186</td>
<td>24,357</td>
<td>18,993</td>
</tr>
<tr>
<td>Cereals</td>
<td></td>
<td>23,060</td>
<td>16,526</td>
<td>24,533</td>
<td>124,764</td>
<td>37,776</td>
</tr>
<tr>
<td>Cotton</td>
<td>1,108</td>
<td>11,916</td>
<td>59,665</td>
<td>33,723</td>
<td>64,635</td>
<td>34,209</td>
</tr>
<tr>
<td>Gold</td>
<td>414,872</td>
<td></td>
<td>48,493</td>
<td>150,654</td>
<td>190,598</td>
<td>160,923</td>
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<tr>
<td>Tantalum</td>
<td></td>
<td>15,011</td>
<td>27,257</td>
<td>56,898</td>
<td>16,780</td>
<td>23,189</td>
</tr>
<tr>
<td>Textile &amp; Apparel</td>
<td>34,147</td>
<td>2,788</td>
<td>7,733</td>
<td>20,964</td>
<td>26,022</td>
<td>18,308</td>
</tr>
<tr>
<td>Total Exports</td>
<td>3,617,790</td>
<td>3,865,994</td>
<td>3,511,551</td>
<td>3,791,862</td>
<td>3,545,334</td>
<td>3,666,506</td>
</tr>
<tr>
<td>Birr for 1 USD</td>
<td>6.54</td>
<td>6.92</td>
<td>7.60</td>
<td>8.19</td>
<td>8.37</td>
<td>7.52</td>
</tr>
</tbody>
</table>

As shown above on table 1, Ethiopia has been and still is highly dependent on few agricultural products. Undoubtedly, this structure of the country’s export sector would prevail in the coming two or three decades with slight change in favor of the industrial sector.
II. Public Versus Private Export Activities

Since the launching of the new market oriented economic policy in 1992, the participation of the private sector has now become dynamic with sharp and continuous increase export earnings (from 16 percent in 1990/91 to 80 percent in 1997/98). However, the revival in the private sector participation has not been accompanied either by a significant increase in the volume nor in the diversification of export.

A number of policy reforms embodied in the economic liberalization program have contributed to the better involvement of the private sector. The reforms include, among others, the following structural adjustment measures:

- Devaluation of the national currency to reflect its market value, and liberalization of the foreign exchange transactions;
- Abolishing of all export taxes (except on coffee) and subsidies;
- Liberalization of foreign trade;
- Introduction of export incentive scheme such as duty drawback, foreign exchange retention;
- Privatization of public enterprises and the removal of state monopoly in the financial business;
- Deregulation of domestic prices;
- Promulgation of a liberalized investment law with different incentives.

III. Features of Ethiopia’s Export Strategy

3.1 General Strategy

The Ethiopian Development Strategy has twin objectives. The first one is to promote rapid economic growth with a stable macro-economic environment. The second one is to enhance the integration of the Ethiopian economy with the world economy. In this endeavor, due emphasis has been given to the promotion of exports. Accordingly, an export development strategy has been devised to increase and diversify the country’s exports.

Ethiopia’s long term development strategy is based on Agricultural Development Led Industrialization (ADLI). This envisages that over a period of two decades economic growth in Ethiopia will be led by agriculture. The implication is that the pace of economic growth will be set by agriculture directly through its contribution to growth of GDP, and indirectly as a market for the rest of the economy.
In the coming two or three decades export is assumed to be the leading sector of the economy as against to its present weak (10 percent of GDP and about 40% of import bills) position. Such an extent of unbalance is becoming very critical issue that could generate severe conditionalities. To alleviate the problems of trade balance, exports should be increased fast so as to maintain the existing stability of the country’s micro-economic program reforms.

Cognizant of this fact, the export development strategy of Ethiopia is conceived along these issues based on its resource endowment and comparative advantages focusing around four major lines. First, the gain from surplus venting through productivity improvement and cultivation of unused land will be maximized. Second, the advantage of natural resources for exports of high-value agricultural products be utilized. Third, to open a new basis of exports of manufactured goods, grounded on the country’s comparative advantage of labor, and fourthly, to discover and exploit exportable minerals.

High value agricultural products would comprise different variety of horticultural products, including fruits, vegetables and flowers as well as fresh/chilled meat. The introduction of new but uncomplicated technologies of production and distribution, and management know-how, particularly in the contemporary competitive world trade, is of paramount importance for the promotion of Ethiopian exports.

Regarding manufactured goods, Ethiopia’s potential lies in clothing, textile, leather and leather products. Beside the country’s labor and material resources potentialities, the world market for these products is huge, and has been shifting continuously from the advanced to developing countries. To put the strategy in to effect, initial focus is on labor intensive products where Ethiopia’s comparative advantage lies, such as clothing and possibly some leather products.

3.2 Commodity Strategies

Coffee: Ethiopia’s market share in the world trade is currently about 2 percent. The present low world coffee price is adversely affecting foreign exchange earning from this commodity. This trend is expected to grow as world coffee production is surpassing the demand for it. To compensate the loss, the strategy envisages eventual export volume increase by increasing productivity and land under cultivation.

Pulses & Oilseeds: Although the world market for pulses and oilseeds is relatively small, Ethiopia’s share can still be increased particularly in haricot beans, and sesame seed. Thus, the optional strategy is to expand output and increase export volume until the market becomes a constraint.

Horticulture: Even though there are important factors to be considered, Ethiopia has resource advantages to compete internationally in the export of horticultural products such as flowers, vegetables and fruits. The world market of
these products, which is expected to grow along with new tastes and increasing income, especially in the advanced countries is favorable opportunity.

**Meat:**  
Ethiopia's comparative advantage in export of meat lies in the large livestock population of the country, proximity to the middle eastern market for the supply fresh and chilled meat, and potentially desirable natural quality meat, focusing on sheep meat. Likewise some Western Africa countries are potential market for beef meat.

**Cotton:**  
There is abundant scope for the production of both short and long fiber cotton that can be grown under rain-fed and irrigated agriculture. Thus, cotton is an item that got due attention to be encouraged for export.

**Clothing:**  
Clothing offers a good possibility of increasing export particularly to the USA and other advanced Western countries. This could be achieved through encouraging domestic investment operating under international sub-contracting, and technical/management agreements.

**Leather:**  
Ethiopia has a resource advantage in export of semi-processed leather, and has a potential competitive advantage in export of leather garment in the same sense as textile clothing. Thus, the strategy for the development of the sub-sector is two-pronged. First, to increase the export of semi-processed leather by raising the availability of supply of raw hides and skins, quantitatively and qualitatively, and increasing the capacities of processing tanneries. Second, to make an entry in to the export market for finished leather, leather products, particularly garments. Other leather products such as shoes, bags, articles, etc. are assumed to be promoted through the arrangements of international sub-contracting with technical/management assistance.

**Minerals:**  
Prospecting of precious minerals such as gold and tantalum are actively encouraged. Likewise, the country also has huge deposits of marble and granite which could be exploited by domestic and foreign investors.

**IV. Incentives/Interventions**

- All export export commodities, but coffee, are exempted from export duties.
- Application of duty draw-back scheme on items imported to produce exportable goods.
- Voucher scheme (to be applied in the near future). The beneficiaries of the scheme are persons and organizations who have obtained eligibility certificates.
• Bonded manufacturing warehouse for exporters who are not eligible to use the voucher scheme and who have license that enables them to operate such warehouse.
• Pre-shipment and post-shipment credit guarantee schemes.
• Permission of foreign exchange retention account (10% without time limitation for type “A” and 90% for type “B” for 28 days to be used for export related activities.

V. Factors Influencing the Effective Implementation of the Strategy

Ethiopian export is dominated by few raw or semi processed agricultural products which have been the main contributors to the country’s foreign exchange earnings. This feature is expected to continue without significant change, in the near future, due to the over all underdevelopment of the country’s economy. The prevailing investment friendly policies and strategies are not expected to bring about a sound export growth in the short run. Generally, Ethiopian export trade is constrained by the following major problems:-

- Low level of industrial development; the volume and quality of industrial export commodities are inadequate;
- Lack of diversification; limited by type and volume, i.e., confined to few items of which one commodity(coffee) accounts for about 60 percent,
- Limited capability of the private sector to bring about effective production process and technological progress in order to be competitive in the international trade, due to low level of entreprenurialship or venturesome spirit,
- Lack of competitiveness attached to efficiency, inputs, technology, product design, specifically in leather and textile products, management, training, high overhead costs, supports,
- Inability to produce the required quality of export products that meet ISO9000 and ISO 14000 standards for which western European countries are advocating,
- Information gabs on technology, market, raw material, foreign trade opportunities, etc,
- Incapability of transforming the raw export items into processed or finished products,
- Lack of export marketing skills and market promotion schemes; inadequate trained manpower in international marketing intelligence,
- Limited managerial and technical capabilities of the business sector,
- Insufficient promotional supports,
- Inefficient bureaucracy (L/C procedures, clearing houses, transport organizations, etc),
- Higher prices due to long inland transportation to the ports, high freight rates, high port charges, inefficient operations, etc,

- Lack of standardized quality packaging that meet the importers requirements,

- Lack of cold storage for perishable items such as fruits, vegetables, meat, flowers, etc.

VI. Support Services to Export Trade

The following issues could be cited as measures to be taken to alleviate the export bottlenecks of Ethiopia:

• Communication networking, trade information and awareness creation through information flow, i.e.,
  a) Access to internet, transaction modalities, mode of payments/ financial transactions,
  b) Network to information sources on export/import regulations, procedures, agents, buyers, advertising agents, customers, market opportunities, trading chains, market outlets, etc,

• Capacity building, manpower development, skill transfer and training,

• Business services such as promotion, marketing, contacts to marketing chains and trading services,

• Financing of export business and provision of credits at conventional rates,

• Access to external financing such as venture capital, working capital, financing of transaction such as imports of raw materials for export goods manufacturing and financial cover of exports before being paid,

• Export business services such as project cycle support: project design, preparation, evaluation, implementation, and follow up,

• New modalities of financing such as capital markets, venture capital, and direct investment in the export oriented business activities,

• Technology support and applied research facilities for the export sector and thus, enhancing productivity,

• Creation of enabling conditions, quality standardization, consultation forums, avoiding export barriers,

• Exchange of technical information, experiences and practices,
• Development of infrastructures such as export processing zones, business incubators, cold warehouses, etc,

• Strengthen export management and technical competencies,

• Export trade support services: market study, consumer promotion schemes, trade visits/fairs, exhibitions, develop trade relation programmes, advertising and information dissemination,

• Packaging and labeling for regional and global markets,

• Enhancing and improving quality standards along ISO 9000 and ISO 14000 series,

• Organizing exports so as to make them strong enough to bargain on export and related issues.