Assessment of the Level of Performance, Challenges and Prospects of Export Trade in Ethiopia: A Management Perspective

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Abstract

*This study tries to assess the level of performance, challenges and prospects of the Ethiopian export trade **from the management point of view** and to investigate the performance of the export operation in a systematical approach. With the emergence of globalization and liberalization, barriers to cross border for business are becoming so diminished. Globalization, a trend toward a more integrated and global economic system, is a challenge that countries have to learn how to live with it, manage it and take advantage of its opportunities since national economies are becoming more interdependent and integrated. In addition, today's theories of economic development emphasize improving export performance as a vital component to international competitiveness and rapid growth and development. Hence, the modern credo of economic development became **'export or perish'**.*

The main problem that this study tries to address is why the Ethiopian export trade performance is unsatisfactory in spite of its long time entrance into the international market and the paradox that Ethiopia has a capable labor force, low wage rate, a wide range of weather and soil conditions, and preferential access to major world markets. The objective is to assess the level of performance, to identify the main challenges and potentials and to suggest possible remedial actions in relation to export trade. The methodology used includes survey, interviews and document review. The scope of the study covers those stakeholders having active participation in the sector and its limitation is that it is not exhaustive in terms of data sources and variables of analysis. The study is believed to benefit those stakeholders in the export sector to see their weaknesses and strengths. Literatures on both theoretical and empirical aspects have been reviewed. Quality problems, inefficient management of exporters, inefficient promotion of the export sector, and low performance of export processing are the main findings of the study.

Accordingly, conclusions and recommendations have been made focusing on improvements to be made on quality, exporters' capacity, export promotion and export processing in order to improve the performance of Ethiopian export trade.

Key words: Management perspective, Export operations, Systems approach, Competitive advantage, Export performance.

Introduction

Many theories of economic development advocated import substitution in order to increase productivity and diversity of the production structure (Brook Debebe, 1999, p.5). But today, the emphasis has shifted to improving export performance. It has been increasingly recognized that given the limited size of domestic market and the dependence on the import of intermediate and capital goods, expanding export capacity and increasing international competitiveness are vital factors for rapid growth and development.

Systematic identification of factors constraining export growth and diversification is quite important in the design and effective implementation of export enhancing policies. With this regard, there are a number of theories about the constraining factors of exports in developing countries. One school of thought is the trade pessimists who ascribed the export setback to the difficult conditions in the export markets, especially the protectionist reaction of the industrialized countries. The other school of thought is the structuralisms, who blame the supply side constraints within the developing countries as the main factors that inhibit export growth and diversification.

There are also other arguments that consider policy failure as a major constraint on effective export diversification. Accordingly, the success of export orientation depends on sound policy implementation, at the right place and at the right time in removing constraints and seizing opportunities.

One study indicates that policy distortions, poor infrastructural services, high risks and high transaction costs that inhibit competitiveness are the prime barriers on effective export diversification in Ethiopia.

Other researchers classified the export constraining factors in developing countries as external and internal. The external factors include international trade laws and regulations, regional trade organizations' laws and regulations, and the import regulations of individual countries. The domestic/ internal factors include government policies, the level of industrial development, the incentive structure, the export support services, and firm specific factors such as skill composition, quality management among others. The modern credo of economic development of nations is **"export or perish**" (Singh and Mahadevan, 1996). The developing countries of the world have always been placed at a disadvantage vis-à-vis with the developed ones and are beset with perilous balance–of-payments situations, as their export falls behind their import requirements, to meet in many cases domestic demands for necessities. The concerted development of export strategies, markets, and infrastructure, on one hand, and the evolving ways and means to encourage export-oriented activities at home on the other, has acquired an immediacy and urgency with which all developing nations have to implement their export strategy.

According to Cherunilam (2004, P. V), with the ongoing liberalization mandated by WTO, barriers to cross border business have been disappearing or diminishing substantially and a borderless business world is emerging. Ali (2004, p. 2) also states that "Globalization for better or worse has changed the way the world does business. ….It is all but unstoppable. **The challenge that individuals and businesses face is learning how to live with it, manage it, and take advantage of the benefits it offers".** Cherunilam states that "driven by the ubiquitous liberalizations, national economies are becoming more and more interdependent and integrated; and the world economy and business are becoming more and more globalized".

This research project is then conducted to assess the performance of export trade of Ethiopia and to identify the major challenges and potentials of the export sector. Records show that export trade in Ethiopia was started during the reign of Minilik II and expanded more during the reign of Emperor Haile- Silasse I. Since then, the country has been exporting items like coffee, leather, and hides and skins and some agricultural products such as oil seeds and cereals.

Despite this long time entry into the export market, various studies indicate that the overall performance of the export sector is unsatisfactory. This is evidenced by the lower Export/GDP ratio and by the declining share of exports in import financing. The export structure of Ethiopia has also been characterized by greater concentration on a few traditional exports such as coffee, hides and skins, and oilseeds and pulses. This indicates that there are challenges preventing the expansion of export trade in Ethiopia needing to be investigated to find out the appropriate remedies. On the other hand, the paradox is that Ethiopia is considered to have various advantages for the development of the export sector, as the abundant and capable labor force, low wage rates, a wide range of whether and soil conditions, preferential access to some of the major world markets including Europe, USA, and the Common Markets for Eastern and Southern African states (COMESA).

These aspects initiated the present study to investigate the challenges and prospects of export trade in Ethiopia and the reasons for which Ethiopia is not active enough in its export sector. More specifically, the following basic questions are addressed by the study:

1. How is Ethiopian export trade performing during the recent years?
2. What major factors do affect export trade in Ethiopia?
3. How do the parties involved in Ethiopian export trade affect its performance?
4. What are the strengths and weaknesses of the parties involved in the Ethiopian export trade?

5. What are the challenges facing the performance of Ethiopian export trade?
6. What should be done by the different stakeholders to improve Ethiopia's export trade performance?
7. What are the opportunities available for the Ethiopian export trade?

The main purpose of this research was to assess and evaluate the level of performance, the challenges and prospects of export trade in Ethiopia. It also aimed at pointing out what should be done to increase export trade performance to take advantage of opportunities, and to solve the future challenges. The subjects of this study were those organizations that have a direct involvement with export trade including Ministry of Trade and Industry, the Ethiopian Chambers of Commerce and Sectorial Associations, the Addis Ababa Chamber of Commerce and Sectorial Associations, the Ethiopian Customs Authority, National Bank of Ethiopia, Commercial Bank of Ethiopia, one exporting company and a logistics office.

The variables treated under this particular research are those factors affecting export trade including the competitiveness of export commodities, exporters' capacity, parties involved in making the export commodities accessible to foreign markets, and export facilitators. Analysis was done focusing on the challenges or threats and opportunities of these parties in the export performance. The limitations of this study emanated from its scope in that, due to time and financial constraints, the study did not include in fact data from such organizations as transport agencies like the Ethiopian Shipping Lines and the Ethiopian Airlines, Ministry of Agriculture and Rural Development, the Economic Commission for Africa (ECA), the World Bank and the Ministry of Finance and Economic Development (MoFED). As a result, some important variables may not be included, which would affect the completeness of the research. In addition, document reviews were limited to sources generated from NBE, CSA, ECuA, EEA, and MoTI.

Literature Review

The theoretical framework of trade theories is referable to a review of theories and empirical findings. Integrating theories with practices in fact helps to better understand how and why nations trade with each other.

The literature review has two major parts: the first part deals with theoretical literature of trade, the second part deals with Ethiopia's export practices.

Review of Theoretical Literature

The main reason that explains why countries trade with each other is related with economics. Basically, it is the difference in resource endowments of nations that make necessary international trade. In support of this idea, Ayele Kuris (2006, pp. 70-71), states: "The main reason that countries trade with one another rather than run completely independent economies is that the earth's resources are not equally distributed across its surface." According to Dwivedi (2002, pp. 507-508), the uneven distribution of resource endowments fuels international trade. Dwivedi further explained his argument as follows:

> "*While some countries are better endowed with natural resources*
> *Like vast fertile and cultivable land, large mineral deposits, water*
> *And forest resources, some others are better equipped with capital*
> *And technology.*"

In addition, Jeannet and Hennessey (2001, p.38) suggested that: "Few individuals in the world are totally self- sufficient"; hence resources are transferred to fill the sufficiency gap. Briefly, one can deduce that nations trade with each other for the same reasons that individuals do; and the basic reasons are the uneven distribution of resources all over the world, and no nation is self- sufficient in producing and satisfying its people. Moreover, according to Dwivedi (2002, p. 508), what is more important is the gain from trade. A number of scholars have presented their arguments and explanations about the rationale behind why nations trade with each other, and in this process of arguments and explanations, new ideas arisen about new ways to deal with the existing events, challenges, resources and perspectives.

Mercantilism

Several literatures assert that mercantilism was the first theory (some call it belief) of international trade, that emerged in England in the mid-16th century. This theory of international trade states that it is in a country's best interest to export more than it imports. According to Hill (1998, p.126), the mercantilist doctrine advocates government intervention through policies to maximize exports by subsidizing exports and to minimize imports by using tariffs and quotas to limit imports. This results in a management of balance of trade surplus.

On the other hand, the classical economist David Hume identified an inherent inconsistency with the belief of mercantilism in 1752. Hill (1998, p.126) states, according to Hume, that if one country exports more than it imports, the resulting inflow would swell the domestic money supply and generate inflation to the exporting country. On the reverse side, the outflow would have the opposite effect for the importing country. That is, the importing country's money supply would contract and its prices would fall. Hume concluded his argument that in the long- run, no country could sustain a surplus on the balance of trade. The flaw with mercantilism, as pointed out by Hill, was that it viewed trade as a zero sum game (a situation in which a gain by one country results in a loss by another).

Nonetheless, it is believed that mercantilism is still alive today; even recently, the trade strategy of many nations is designed to simultaneously boost exports and limit imports. According to Hill (1998, p.126), for example, Japan is a neo-mercantilist nation because its government, while publicly supporting free trade, simultaneously seeks to protect certain segments of its economy from more efficient foreign competition. Extending the explanation, Hill affirms that it was left to Adam Smith and David Ricardo to show the shortsightedness of this approach and to demonstrate that trade is a positive sum game (a situation in which all countries can benefit, even if some benefit more than others do).

Adam Smith's Theory of Absolute Advantage

The classical economist Adam Smith in his *theory of absolute advantage* provided the earliest evidence of the gain arising from foreign trade. Hill (1998, p.127), explained that absolute advantage refers to the situation in which one country is more efficient at producing a product than any other country. Jeannet and Hennessey (2001, p. 42) tried to explain the theory of absolute advantage as 'While there are many variables that may be listed as the primary determinants of international trade, productivity differences rank high on the list". Hence, Smith's theory of absolute advantage states that a country tends to specialize in the production of commodities in which it has absolute advantage in cost of production. In support of this idea, Dwivedi (2002, p. 508) also elaborates the concept of Smith's absolute advantage as follows:

"It may be possible for all countries to produce all the commodities they need, in spite of resource constraints. Nevertheless, the cost of production of goods for which a country is deficient in its resource endowments would be exorbitantly high. It is, therefore, advantageous for a country to specialize in the production of commodities, which it can produce most efficiently."

However, according to Jeannet and Hennessey (2002, p. 43), it is not possible to conclude that absolute differences in production capabilities are necessary for trade to occur. That leads to the emergence of the theory of comparative advantage.

David Ricardo’s Theory of Comparative Advantage

Ricardo took Smith’s theory one-step further by exploring what if one country has an absolute advantage or an absolute disadvantage. However, according to Jeannet and Hennessey (2002, p. 43), the theory of comparative advantage measures a products’ cost of production, not in monetary terms, but in terms of the foregone opportunity to produce something else. It focuses on trade-offs. David Ricardo’s *theory of comparative advantage* is explained by Hill (1998, p. 131), as a situation in which a country specializes in the production of those goods that it produces most efficiently and to buy from other countries those goods that it produces less efficiently, even if this means buying goods from other countries that it could produce more efficiently itself. In addition, Dwivedi (2002, p. 59) describes Ricardo’s theory of comparative advantage, as “it is possible to have a gainful trade between two countries even if one country has absolute advantage in the production of both the commodities and the other absolute disadvantage in the production of both the commodities.”

David Ricardo’s theory of comparative advantage has been criticized since based on such grounds as the assumption of labor homogeneity all over the world, labor being the only factor of production, the demand side being ignored, and so on. According to Michael Porter, as stated by Jeannet and Hennessey (2001, p. 45), “…while the theory of comparative advantage has appeal, it is limited just to the factors of production on land, labor, natural resources, and capital.”

According to Jeannet and Hennessey (2001, p. 46), the theory of comparative advantage suggests that it is the relative rather than the absolute differences in productivity that can form a determining basis for international trade. However, these two authors claim that this theory gives little insight into the source of the relative productivity. The notion of comparative advantage requires that nations make intensive use of those factors they possess in abundance. They should export those goods in which they have a comparative advantage and import those goods in which they have comparative disadvantage. From this, it can be inferred that Ricardo's theory stresses comparative advantage arises from differences in productivity or differences in the cost of production is the basis for international trade.

The Heckscher-Ohlin Theory of Trade

This theory is also referred to as "*the factor endowment theory of trade or the modern theory of trade*." The theory tries to address why some nations enjoy comparative advantage in the production of some goods and how this comparative advantage forms the basis for international trade. More specifically, Hill (1998, p. 63) states that the Heckscher-Ohlin theory tries to answer the following questions, which were not addressed by the Ricardian theory of comparative advantage:

1. Why does a nation have comparative advantage in the production of a commodity and a comparative disadvantage in the production of another commodity?
2. Why the production possibility curves of any two nations differ?

According to Hill (1998, p.151), the Heckscher-Ohlin theory argues that the pattern of international trade is determined by differences in factor endowments. It predicts that countries will export those goods that make intensive use of locally abundant factors, and will import goods that make intensive use of factors that are locally scarce.

The Leontief Paradox

The Heckscher-Ohlin theory has been one of the most influential theoretical ideas in international economics. Most economists prefer the Heckscher-Ohlin theory to Ricardo's theory because it makes fewer simplifying assumptions, and it has been subjected to many empirical tests. Beginning with a famous study published in 1953 by Wassily Leontief (winner of the Nobel Prize in economics in 1973), many of these tests have raised questions about the validity of the Heckscher-Ohlin theory. Using the Heckscher-Ohlin theory, Leontief postulated that since the United States was relatively abundant in capital compared to other nations, it would be an exporter of capital-intensive goods and an importer of labor- intensive goods. To his surprise, however, he found that US exports were less capital-intensive than US imports. Since this result was a variance with the prediction of the theory, it has become known as the Leontief paradox.

The Product Life-Cycle Theory

Raymond Vernon initially proposed this theory in the mid 1960s. The theory suggests that trade patterns are influenced by where a new product is introduced first (Hill, p. 151). According to Jeannet and Hennessey (2001, p.48), whereas the Heckscher-Ohlin theory argues that the pattern of international trade is determined by differences in factor endowments, the product life cycle theory focuses on the *role of technology, economies of scale, transportation costs and changing input requirements.* In addition, the Hecksher-Ohlin theory predicts that countries will export those goods that make intensive use of locally abundant factors and will import goods that make intensive use of factors that are locally scarce. On the other hand, the product lifecycle theory suggests that trade patterns are influenced by where a new product is introduced. On the other hand, some scholars claim that the product life cycle theory seems to be less predictive in an increasingly integrated global economy.

The New Trade Theory

This theory argues that in those industries where the existence of substantial economies of scale implies that the world market will profitably support only a few firms. Countries may predominate in the export of certain products simply because they had a firm that was a first mover in that industry. First mover advantages can be explained as economic and strategic advantages that accrue to early entrants in an industry. According to Hill (1998, p.141), the new trade theory is at a variance with the Heckscher-Ohlin theory where as it is not at a variance with the theory of comparative advantage. Since economies of scale result in an increase in the efficiency of resource utilization, and hence, in productivity, the new trade theory identifies an important source of comparative advantage.

Consistent with this theory, a recent study suggested that first mover advantages are important factors in explaining the dominance of firms from certain nations in certain industries. Hill (1998, p.142) argues that the most contentious implication of the new trade theory is the argument that it generates for government intervention and strategic trade policy. The new trade theory stresses the role of luck, entrepreneurship and innovation in giving a firm first mover advantages.

Porter's Theory of National Competitive Advantage

Michael Porter focused on why some nations succeed and others fail in international competition. More specifically, Porter explains why a nation achieves international success in a particular industry (Hill,2005, pp. 142-150). Michael Porter in his theory of national competitive advantage identifies four broad attributes of a nation that shape the environment in which local firms compete, and that these attributes promote or impede the creation of competitive advantage. Porter identified the four attributes as factor endowments (such as skilled labor or the infrastructure), demand conditions (nature of local demand for the product), related and supporting industries and firm strategy, structure, and rivalry (the conditions in how companies are created, organized and managed and the nature of domestic rivalry). Michael Porter also maintains that two additional variables can influence the national demand in two important ways: *chance and government*. Chance events such as major innovation create discontinuities that can unfreeze or reshape industry structure and provide the opportunity for one nation's firms to support another's government by its choice of policies, detracting from or improving national advantage. For example, regulation can alter home demand conditions, antitrust policies can influence the intensity of rivalry within an industry, and government investment in education can change factor endowments.

Empirical literature

The theories of trade provide diverse perspectives to explain why certain nations are qualified to be exporters of certain commodities. The success of nations as exporters depends, however, not on the theoretical perspectives but over the practical realities on the ground. These include export opportunities emerging because of globalization, regional economic integration, diverse export development strategies, and export promotion that are to be discussed here under.

Globalization: Its Pros and Cons

Globalization may be explained as the shift toward a more integrated and interdependent world economy (Hill, 1998, p. 5). In the words of Ali (2004, p. ix), globalization conveys "the perception of the world that is fully connected and finite in its geographical space, and yet offers an infinite possibility for growth, renewal and revitalization". Ali (2004,p. ix) states globalization in a more comprehensive way, as follows:

> "*Globalization has become a fact because of the advancements in information technology and the unprecedented growth and trade. It reinforces a sense of responsibility toward us as partners and competitors, as beneficiaries and custodians of our organizations and our environment.*"

The impact of globalization on developing countries has remained a controversy. The supporters of globalization maintain the view that globalization would lead to economic growth and poverty reduction if only countries open up their economies through liberalization and dismantling of trade barriers. Explaining the merits and demerits of globalization, Amdetsion Gebre Michael (2005, p. 318), in his presentation of the Proceedings of the Second International Conference on the Ethiopian economy, has put as follows:

> *"The proponents of globalization argue that it will bring about economic growth and poverty reduction. This argument is based on the theory of comparative advantage that states that free- trade generates considerable gains to countries by allowing each country to specialize in areas in which it has comparative advantage, and from access to larger markets. On the other hand, the anti-globalization view argues that globalization is harmful to developing countries, and will exacerbated income inequality across countries and with countries. According to this view, globalization makes the rich richer and the poor poorer."*

Furthermore, Hill (2005, p. 25) states that supporters of the notion of globalization argue that increased international trade and cross boarder investment will result in lower prices for goods and services. They also believe that globalization stimulates economic growth, raises the income of consumers, and helps to create jobs in all countries that choose to participate in the global trading system.

On the other hand, those who are against the notion of globalization argue that far from creating jobs, removing barriers to international trade actually destroys manufacturing jobs in wealthy advanced economies. The trust for this argument is that falling trade barriers allow firms to move their manufacturing activities offshore to countries where wages are much lower. In response to this argument, the supporters of globalization argue that the benefits outweigh the costs. They argue that free trade results in countries specializing in the production of those goods and services that they can produce most efficiently, while importing goods that they cannot produce so efficiently from other countries.

A number of researches indicated that the extent to which developing countries could benefit from globalization varies with the stage of development of that nation. According to these research findings, the critical conditions useful to take advantage of the benefits of globalization are broad based economic structure, well developed industrial capacity, diversified export pattern, availability of skilled work force, institutional and infrastructural facilities, good governance and conducive policy.

The Ethiopian export dynamics

During the Imperial regime, the Ethiopian economy was a type of mixed economy where the private and public sectors coexisted. There were two major economic development strategies: export- oriented and import substitution. Whereas export trade was considered as the engine of economic development, the import substitution strategy aimed at producing goods at home for the domestic market instead of importing. After the Second World War, export promotion and diversification strategies were pursued.

Attempts were made to raise export by expanding the items, increasing quantity, and improving the quality of exports. Large area of agricultural land was devoted to the production of crops for the export market, and much of the physical infrastructure specially the expansion of the road network was related to the growth of foreign trade. The aim of the export-led development strategy was to generate foreign currency that is required for the country’s import financing and this strategy continued up to 1960. After 1960, emphasis was shifted to the import substitution strategy with the aim of protecting the domestic infant industries. The protection used a successively higher tariff on imported goods. However, studies indicate that this strategy was not successful. This was mainly due to the declining exports which resulted in a negative balance of payment, acute shortages of foreign exchange, and mounting international obligations.

During the Derg period, the economic policy was a command economy. The development strategy was import substitution and both tariff and non-tariff barriers were used to limit the type and quantity of imports. On the other hand, during the EPDRF, the economic policy was changed into a market economic system. The strategy is Agriculture Development Led Industry (ADLI). This strategy consisted of two components: the external (export-led) sector and the internal sector which focuses on rural centered development. In the external sector, agriculture and mining were expected to play a major role. The rural development program was believed to result in rapid growth in productivity in agriculture. Hence, it benefits the society at large by boosting the supply side through sustainable supply of export goods, food at reasonable prices and raw materials for the manufacturing sector. The program was also aimed at creating market access (effective demand) for the manufacturing sector.

Regional Economic Integration

The agreement between countries in a geographic region to reduce tariff and non-tariff barriers to the free flow of goods and services, and factors of production between these countries is referred to as regional economic integration. Consistent with the predictions of international trade theory (particularly the theory of comparative advantage), the belief has been that regional free trade zones produce substantial gains from trade for all member countries. According to Hill (1998, p. 230), GATT and its successor WTO also seek to reduce trade barriers. By entering into regional agreements, groups of countries aim to reduce trade barriers more rapidly than under the auspices of the WTO. In addition, according to the Ethiopian Business Development Services Network (EBDSN, Investment Guide for Ethiopia 2/2004), Ethiopia has market access to Common Markets for

Eastern and Southern Africa (COMESA), for Everything But Arms (EBA) trade into the European Union, Access to African Growth and Opportunity Act (AGOA) and Generalized System of Preference (GSP). The AGOA agreement embraces 20 countries in Eastern and Southern Africa with a population of approximately 380 million and exporters and importers with member countries enjoy preferential tariff rates.

With regard to "Everything But Arms", all Ethiopian export goods except arms, can enter in to the European union market free of duty and quota restriction. Under the AGOA program, Ethiopia is entitled to duty-free and quota-free, US market access. Ethiopia has already been eligible for duty and quota -free treatment for its wide range of manufactured products in other countries as Canada, Japan, Australia and most European Union countries under the generalized system of preference (GSP) program. Under the AGOA, however, essentially, all export products of Ethiopia are eligible for duty-free and quota-free US market access.

Export Development Strategies in Ethiopia

According to the Ethiopian Ministry of information's Press and Audiovisual Department's 2005 report, the export development strategy focuses on sectors and products that have already reliable markets and thus contribute to the foreign exchange earnings of the country. The export development strategy aims at maximizing the productivity through improvement and cultivation of unused land. Moreover, the strategy aims to utilize the advantage of natural resources for exports of high value agricultural products, establish new basis for exports of manufactured goods based on the country's competitive advantage of labor and discover exportable mineral and fuel deposits. High value agricultural products include vegetables, flowers, and fruits as well as fresh and chilled meat. There is plenty of scope for expansion of exports based on surplus venting by allowing exploitation of unused land for agricultural cultivation. The report also states that there is the greatest potential for growth of export manufacturers for which the world market is huge more specifically in clothing, textile, leather and leather products.

Reports indicated that there are conducive scenarios to export development, including access to land, infrastructure development, and water resources. The same is true for private–public sector partnership forums, institutional support, and tackling bureaucratic obstacles. Export incentives include export tax exemptions, access to inputs, export financing, external loan and suppliers or foreign partners' credit, Franco-valuta schemes, and foreign exchange retention.

Export Trade Promotion in Ethiopia

The importance of export trade promotion is justified by a number of arguments. According to Getnet Astatike (2005, p. 18), the first argument is that export promotion strategy leads to increasing market size for the developing country and render all the benefits associated with large-scale operations, while the second argument is that export promotion strategy also would make possible the availability of critical imported inputs that would boost domestic capacity utilization and bring about total factor productivity. In other words, an export promotion strategy can increase foreign exchange revenue, capacity utilization, and growth of factor productivity.

For instance, Ethiopia, recognizing the importance of the export promotion strategy, has established the Export Promotion Agency (currently, it has been changed in to Ethiopian Export Promotion Department, EEPD), which is responsible for facilitating the design and coordination of the overall export promotion task (Berhanu Lakew, 2005, p.355). Other institutions supporting the export promotion are the Ethiopian Trade point, the Animal Products Marketing Agency, and the Leather and Leather Products Promotion Agency. The Ethiopian Exports Promotion Agency (EEPA) is a government institution with the objective of promoting the country’s exports. It provides export incentive schemes including export trade duty incentive scheme, export credit guarantee scheme, foreign exchange retention scheme, external loan and suppliers’ or foreign partners’ credit scheme, and so on.

Determinants of Ethiopia’s Export Performance

Birhanu Lakew (2005, P.351), as stated by Bruk, identified that market access, low level of private investment, high transaction costs, infrastructural deficiencies, delays in service delivery, limited market knowledge, and shortage of skilled work force as the main constraints challenging Ethiopia’s export sector.

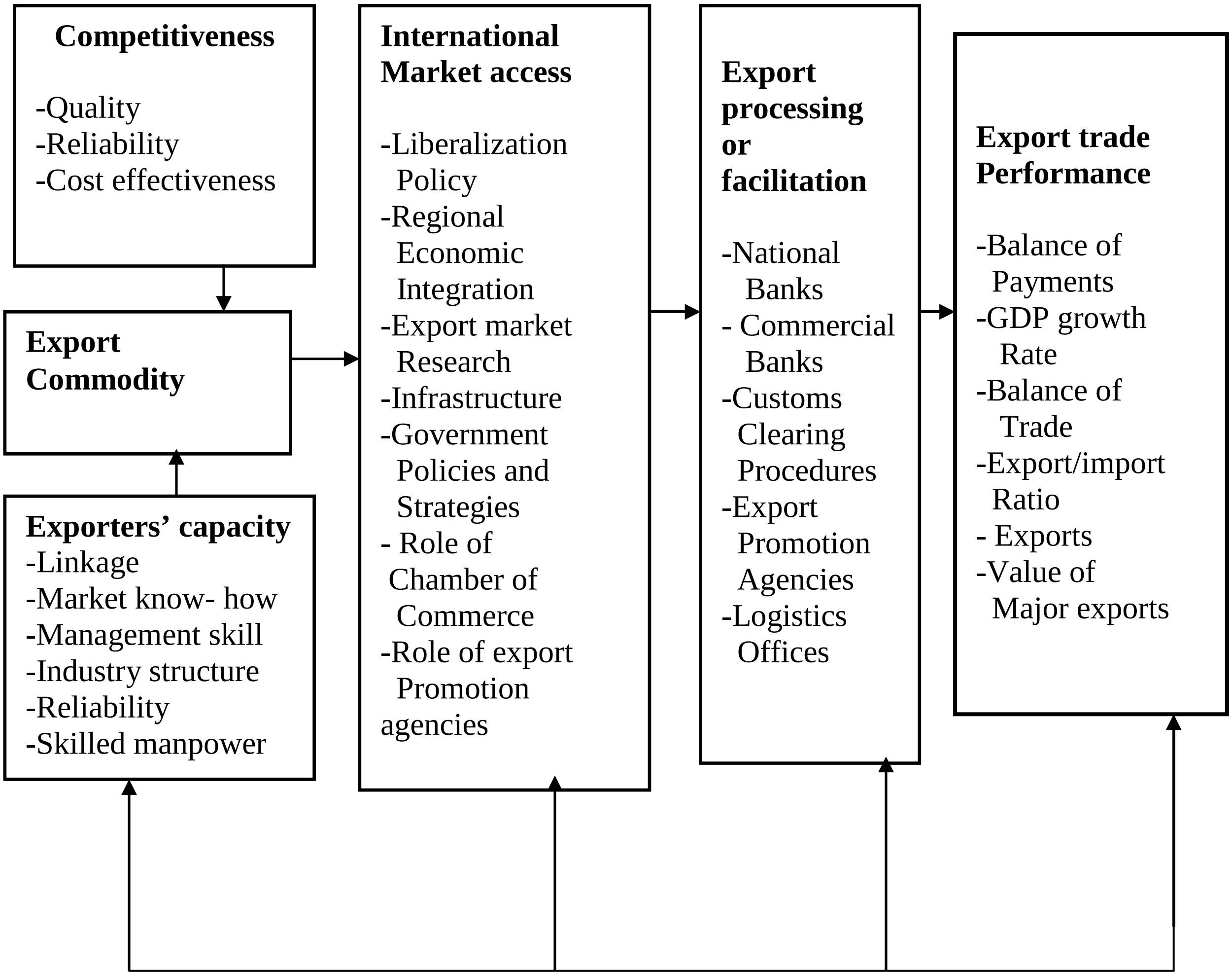
Research/ Conceptual Framework of the study

This part of the research project, the research framework or conceptual framework, tries to depict the world outlook or worldview of the researcher about the topic under study and presents the input–process-output relationship of export trade performance, showing the integration among the different components that make up export trade performance and link the literature review with the methodology.

The conceptual framework also tries to show the stakeholders present in each stage of the export system and their role to the final output of the system. In addition, the framework helps to identify who is involved, in which stage of the process and their interaction in the system. Furthermore, it is helpful to show how data had been obtained for analysis of the topic.

As depicted in the following figure, the research framework may be organized to have such components as the export commodities in the input side, market access and export processing as processes of the system, and the export trade performance as an output (see the following figure).

Figure-1: Input-process- output of the research framework



Competitiveness of Export Commodities

First of all, the export commodities should be competitive enough in the international market and such parameter can be measured in terms of quality, reliability, cost, and delivery time of the particular product/ commodity.

The competitiveness of the product can also be influenced by the exporters' market knowledge, the industry structure, linkage between suppliers and exporting companies, management skill, transaction costs, and investment capacity. Such information was collected from the exporting companies through questionnaires and direct interviews, in which the following questions were asked to key-stakeholders:

1. How competent are the Ethiopian export commodities in the international market?
2. How strong is the exporters’ management capacity?
3. What are the prevailing problems of export trade in Ethiopia?
4. How conducive is the government policy and strategies in terms of export?
5. What are the strengths and weaknesses of export processing in Ethiopia?
6. What is the level of the Ethiopian export trade performance?

Market Access

The second components of the research framework are process determinants, as market access and export facilitating functions. Export market access can be influenced by such factors as government export trade policies and strategies, infrastructural facilities (as roads, telecommunications, railway systems, airlines, shipping lines, etc.), globalization and liberalization policies, trade barriers, regional economic integration, and export market research facilities. With this regard, the Ministry of Trade and Industry and the Export Promotion Agencies are the main target groups to be investigated. In addition, export trade process is dependent by the performance of such stakeholders as the Ethiopian Customs Authority (ECuA), the National Bank of Ethiopia (NBE), the Commercial banks (both government owned and private banks), Export Promotion Agencies (EPAs), logistics offices, and government incentives in terms of tax exemption. Primary data from these parties was collected using questionnaires and interviews, and the questions were:

1. What are strengths and weaknesses of the Ethiopian export trade policies and strategies?
2. How much is the infrastructure facilitated to promote the export trade in Ethiopia?
3. How is Ethiopia benefiting from regional economic integration and from globalization?
4. Is there any institution in Ethiopia, which is responsible for conducting export market research?
5. What are the prevailing problems of export facilitating parties like banks, customs authorities, logistics offices, and export promotion agencies?

Export Processing

The performance of export trade sector is also affected by the performance of the parties involved in facilitating this trade. This group includes the Ethiopian Customs Authority, the Commercial banks, National Bank of Ethiopia, and the transit agents and logistics offices, and their efficiency or inefficiency has a direct bearing on the performance of the whole Ethiopian export trade.

Export Trade Performance

Finally, the output of the process is the export trade performance, which can be measured in terms of GDP growth rate, increase in employment rate, and changes in the balance of payments, inflation reduction rate and increase in the trade balance or net exports. Analysis of the export trade performance was carried out by *documentary review* using secondary data sources, such as annual reports of institutions as the Central Statistics Authority of Ethiopia (CSAE), the Ethiopian Customs Authority (ECuA), the National Bank of Ethiopia (NBE), and the Ministry of Trade and Industry of Ethiopia (MoTIE).

Questions asked at this particular point include the following:

1. What does the trend of Ethiopian export trade look like?
2. What are the critical measurements of the Ethiopian export trade?
3. What are the constraints hindering export trade in Ethiopia?

Methodology

While conducting this research, a causal type of research design was used. Data were collected using survey and interviews with selected experts and document review. Interviews were conducted with key informants selected from three institutions among the eight sample organizations and documents were collected from Central Statistics Authority (CSA) of Ethiopia, the Ethiopian Customs Authority (ECuA), National Bank of Ethiopia (NBE), Ministry of Trade and Industry (MoTI), and the Ethiopian Economic Association (EEA).

The survey

The survey was administered in eight organizations which are involved in the export sector: the National Bank of Ethiopia (NBE), Commercial Bank of Ethiopia (CBE), Ethiopian Customs Authority (ECuA), Ministry of Trade and Industry (MOTI), Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA), Ethiopian Chamber of Commerce and Sectoral Associations (ECCSA), a logistics office (Panafric Global), and an exporting company (AGIL Exporters PLC.). The study used a non-probability sampling technique, specifically that of judgmental sampling. Five respondents were selected from each organization on a judgmental basis. The survey questionnaire consists of a variety of questions, including both close-ended and open-ended ones. Forty questionnaires were distributed and 38 of them were completed and returned by the respondents.

The choice of applying such data collection methods was due to a systematical approach to the research questions addressed.

The survey respondents reflect their opinions on a variety of issues in relation to the Ethiopian export sector (Appendix-2A: Questions treated by surveys). For instance, these respondents gave their opinions on the competitiveness of the Ethiopian export sector products in terms of quality, reliability and cost effectiveness. The respondents' opinions were also reflected on the Ethiopian exporters' capacity. These opinions cover the state of backward and forward linkage of Ethiopian exporters, industry structure, management capacity, market knowledge, the state of skilled manpower in the sector, the state of integration of the export sector. Furthermore, the respondents' opinions cover the effectiveness of the facilitation support and services in the Ethiopian export sector. The respondents also provide assessments on the conduciveness of diverse policies to assist the private sector to access international markets. These opinions address infrastructural, institutional and informational supports provided by such parties as the chambers of commerce, export promotion agencies, regional economic integration and export market research institutions.

The Interview

Other data were collected by interviewing selected experts. The study conducted interviews with three executives (one from Ethiopian Chamber of Commerce and Sectorial Associations, one from AGIL Exporters PLC., and one from the Ministry of Trade and Industry). These people were selected for an interview since more competent with issues relevant to the study. The interviews provided information useful to identify strengths and weaknesses of the Ethiopian export commodities and exporters, challenges and prospects of getting access to international market for Ethiopian products, and the strengths and weaknesses of the parties involved in export processing. (Note that information about the overall export performance were not dealt with during the interview).

Document Review

The documents reviewed in this study comprise National Bank of Ethiopia's Annual Reports on export trade during the years 2006/7 till 2008/9, reports of the Central Statistics Authority of Ethiopia, data from the Ethiopian Customs Authority, data from the Ministry of Trade and Industry, and from the Ethiopian Economic Association's 2008/09 quarterly report. The annual reports of NBE provided the study with performance of Ethiopian exports in terms of the changes in the overall balance of payments for the consecutive years under consideration. In addition, these documents provided also information on the changes in the trade balances, developments in Ethiopian merchandise trade, price changes of major export items, volume of major export items, revenues of major export items, export share of selected items, and exports of major commodities by destination.

Findings

Strengths and Weaknesses of Ethiopian Exported Commodities

Responses from key informants on the strengths of Ethiopian export commodities indicated that they are organic (primary agricultural products), characterized by a significant demand in the world market as a result of better nutritional values, an high potential for type diversification, a relatively cheaper cost of production as a result of labor intensiveness, and highly advantaged in terms of geographical locations to the world market.

With regard to their weaknesses, low quality, high price because of high local costs, semi processed, lack of diversification, strong domestic demand resulting in lower volume of exports, inherent uncertainty of production (unpredictability of supply), poor packaging, adulteration and low rate of purification are some among the most frequently responses. It has also been indicated that the Ethiopian export commodities are seasonal, so prices are fluctuating, exposed to damage while in transit as a result of low access to direct ports, and affected by low income elasticity of demand.

In addition, respondents also indicated that a shift is needed from agricultural to manufactured commodities with more added value and able to generate more foreign exchange. The poor quality of products and export services is the result of unethical activities as mixing with other items, thefts by drivers, and lack of trucks for exports which results in delayed delivery, poor handling and freight, which are the most reported weaknesses. Ethiopian export commodities with better development prospects (as suggested by the respondents) include oil seeds, pulses, fruits, horticulture, coffee, sesame seeds, Niger seeds, tin seeds, chick peas, red kidney, beans, lentils, leather and leather products, chat, fruits and vegetables, gold, flower, spices, honey, bees' wax, meat and dairy products, shoe wears, cement, fish (artificial production), food supplements, poultry products, sugar and minerals, potash, hides and skin, precious metals and precious stones, processed hides and skin, textiles and garments , tantalum, herbs, and beverages.

Strengths and weaknesses of Ethiopian Exporters

According to most of the responses, Ethiopian exporters have a high level of commitment in their work, relative trustworthy, ready to learn, endorsed with good working capital, and they use utmost their capacity to compete in the world market. They also play a great contribution role in generation of a significant amount of foreign currency, even though still working in a very competitive environment. With regard to their weaknesses, most of the responses indicate that Ethiopian exporters use traditional ways of marketing, carrying on their businesses without basing on valuable research. Poor management, inefficiency, poor communication, lack of reliability, poor customer service and handling are the most cited weaknesses. Other weaknesses suggested include not well organized, delayed delivery, lack of supplying quality products, exporting only primary products, lack of skilled work force, poor market orientation, limited products and customer knowledge, poor attention to quality. Some of the Ethiopian exporters were also blamed to use unethical business practices.

In addition, traditional management, lack of foreign trade research, lack of innovation in packaging, lack of planning while entering into the export sector, lack of demand analysis, lack of information and export of unprocessed raw materials are the most common weak points of Ethiopian exporters. In fact a significant number of responses indicate that Ethiopian exporters ignore the international rules and regulations in relation to foreign trade, and that lead to improper utilization of their financial and human resources, not updated prices, not defined structure of local markets, lack of access to foreign markets, lack of knowledge (they usually rely only on experience). These problems are mainly due to high cost in doing their business.

Furthermore, respondents suggested that most Ethiopian exporters experience shortage of foreign currencies, bad IT infrastructures, lack of sustainable supply chain, focus only on agricultural products, improper documentation, unwillingness to hire professionals (family based employment), little cooperation among themselves, unfair competition, monopoly or oligopoly scenario, costs with out supporting documents, long chain between exporters and farmers, and lack of forecasting future price fluctuations.

Challenges and Prospects of Getting International Market Access

According to the responses of key informants, it is very challenging for Ethiopian exporters to get international market access because the commodities are agricultural products not competitive in terms of cost and quality. Getting market access for agricultural products is very difficult because developed countries have a common agricultural policy subsidizing their farmers, increasing and affecting the level of competition. Entering into the export market for such commodities is very difficult, specially getting customers as result of no market research and information.

Although Ethiopia has access to AGOA, COMESA and EBA, it is not benefiting from them as possible due to benefits lack of knowledge. Some experts argue that globalization do not imply a market access problem, but Ethiopian exporters lack form of coordination between their selves and also are not well aware of the concept of comparative advantage.

Ethiopian geographic location nearness to Europe, Asia, and the Middle-East and its very good climatic conditions are also opportunities of which advantage should be taken of.

Another challenge of getting access to international market for Ethiopian products is due to the traditional methods of conduct business, which should instead be more technological and avoid unfair competition, while more promotional efforts should be done. There are no organized institutions to facilitate training, market access, no intensive use of technology to find new markets and chances. Supply side constraints, infrastructure lack, trade facilitators' negligence, etc. represent the main problems. Ethiopian exports are mainly limited to China, and generally limited in terms of coverage and volume, due to high demand but limited production capacity. There are no internet facilities, trade fairs, exhibitions that facilitate international market access and promote Ethiopian products.

Further government policies, strategies, bilateral and multilateral agreements should be developed between different countries. Bottom to top level policies implementation problems should be solved. Taxed export commodities in the domestic market are also other constraints for export access.

Strengths and Weaknesses of the Parties Involved in Export Processing

With regard to the strengths and weaknesses of the parties involved in the export processing, the following comments were collected:

Strengths

- Encouraging environment of government policies and export processing.
- Banks doing their best in facilitating export trade.
- At an average, all parties are doing well especially when exporters come with all criterion fulfilled.
- Smooth relationship among stakeholders upon presentation of the required documents.
- High collective interest in improve export dynamics and performance.

Weaknesses

- Not solid organization and coordination among the parties.
- Lack of adequate knowledge in some organizations.
- Inefficiency in providing necessary information to customers and potential buyers.
- Lack of strong supply chain management.
- Lack of awareness of necessary documentation that may result in discrepancies.
- Lack of encouraging policies.
- Lack of high value added export commodities.
- Improper use of AGOA opportunities.
- Lack of integration of the parties in the process, which can be solved through a single window or an online service.
- Delayed processing which results in delayed payments.

- Inefficiency of export promotion agencies.
- NBE's new discouraging policies, illegal and unethical business practices, long procedures, and government problems in clarifying export opportunities and exporter's capacity.

Analysis of Trade Patterns by Destination and Diversification

Destination

The largest market for Ethiopia's export during the fiscal period of 2007/08 was Europe, accounting for 41.9% of the country's exports (NBE's 2007/08 Annual Report). Out of European countries respectively the largest portion of coffee was exported to Germany, flower to the Netherlands, followed by Switzerland, which is the sole importer of gold from Ethiopia. Leather and leather products, coffee and textile and garments were the main exports of Ethiopia to Italy during the year 2007/08.

Exports to Asian countries accounted for 35.2% of Ethiopia's total exports during the fiscal year. On the other hand, 14.2% of Ethiopian exports were directed to African countries, of which 88.3% went to Somalia, Sudan and Djibouti. The share to America from the country's total exports was 8.2%, of which 89.1% went to the USA, 6.1% to Canada, and 1.2% to Mexico. The main exports to USA were coffee and oilseeds.

In general, Ethiopia is currently exporting its products to about 20 nations in Africa, Europe, America, Asia, and Oceania with differences in type of product and volume of export.

Diversification

The Ethiopian export items analysis show an increasing trend in terms of diversification over the considered period. With this respect, Ethiopia is currently exporting the following items: coffee, oil seeds, leather and leather products, pulses, meat and meat products, fruits and vegetables, live animals, chat, gold, flower, sugar and molasses, textile and garments, natural gum, tea, cereals and flour, honey and bees wax, injera, tantalum, sesame seeds, Niger seeds, tin seeds, chick peas, red kidney, beans, lentils, spices, meat and dairy products, shoe wares, fish , food supplements, poultry products, herbs and beverages.

Conclusions and Recommendations

Conclusions: Strong Points of the Ethiopian Export Sector

According to the findings of the survey and interviews with key informants, Ethiopian export commodities are mainly organic (primary agricultural products). They have a good demand in the world market as a result of better nutritional values, high potential for diversification, relatively cheaper cost of production as a result of labor intensiveness, and highly advantaged in terms of geographical locations to the worlds' market. Such achievements are due to Ethiopian exporters' positive competencies and their high level of commitment to the export work. Most interviewees also indicate that Ethiopian exporters are relatively trustworthy, ready to learn, committed to their jobs, endorsed with sufficient working capital. They are supported by good promotion and use utmost capacity to compete in the world market.

With respect to International market access, the strength points include encouraging government policy for the private sector, in attracting FDI, and encouraging export trade policies in terms of tax exemption. With respect to export processing, banks are doing their best in facilitating export trade. At an average, all parties are doing well especially when exporters come with all criterion fulfilled, smooth relationships among them upon presentation of the required documents intervene and almost all stakes have high interest in development of the sector.

Weak Aspects of the Ethiopian Export Sector

The competitiveness of the Ethiopian export commodities in terms of quality is poor, as indicated by 23.7% of the respondents. This may result of lack of backward and forward integration in the supply chain, poor packaging, poor storage, poor carriage, and poor production methods. With regard to the competitiveness of the Ethiopian export commodities in terms of reliability, 52.3% of the respondents said that it is poor, percentage that indicates the existence of a serious problem. This is possibly due to lack of integration, lack of access to infrastructure, inefficiency of the export facilitators, etc. Similarly, the Ethiopian export commodities result weak in terms of cost effectiveness, as a significant number of respondents (54.9%) affirm. The possible reasons for this may include the involvement of large parties in the distribution channel, and high transaction costs resulting from transportation, storage, insurance.

A significant number of respondents indicate that the capacity of Ethiopian exporters is poor in terms of back ward and forward linkage (31.6% agree), management capacity (47.4% agree), market knowledge (36.8% agree), reliability in terms of delivering the right quantity (31.6% agree), skilled workforce (89.4% agree) and coordination among them (84.2% agree).

Interviews results show that most Ethiopian exporters use traditional ways of marketing and management. Other weaknesses suggested include lack of well organization, delayed delivery, lack of supplying quality products, exporting only primary agricultural products, lack of skilled work force, poor market orientation, limited products and customer knowledge. In addition, poor attention to quality, unethical business practices, lack of foreign trade research, lack of innovation in packaging, lack of self motivation, lack of planning while entering into the export sector, lack of demand analysis, lack of information and exporting raw materials that are not processed are the weaknesses of Ethiopian exporters.

Furthermore, Ethiopian exporters are also blamed as they do not know about the international rules and regulations in relation to foreign trade. Improper utilization of their financial and human resources, lack of updated information on prices, lack of well defined structure of local markets, lots of transaction costs and inconveniencies such as lack of infrastructure and technology, lack of access to foreign markets, lack of knowledge.

Last but not least, Ethiopian exporters have also such weaknesses as lack of reliability in terms of delivery time, quality and quantity, lack of trust with professionals, lack of foreign market research in terms of product surveys and supply bases. A large portion of the respondents (68.4%) indicate that the Ethiopian export policy is conducive, which may help getting access to the international market. However, it seems that there is lack of effective communication, because 21.1% of the respondents answered that they are not sure whether the policy is conducive or not. In addition, high transaction costs is one of the reasons hindering access to world markets for the Ethiopian export items as supported by 44.8% of the respondents. Another critical problem in relation to international market access is the absence of export market research, confirmed by 100% of the respondents.

Weaknesses of the parties in export processing include lack of strong organization and lack of adequate knowledge, aspects strictly interdependent, none supply chain management, lack of coordination, lack of encouraging policies, lack of value added exports and improper use of AGOA opportunities. Export processing parties showed even inefficiency from export promotion agencies work, dependency on traditional way of handling and dealing export trade. For example, NBE’s new discouraging policies, illegal and unethical business practices, long procedural time and government inefficiency in make clear and known export opportunities and exporter’s capacity, are still unfortunately actual problems.

Recommendations

- ✓ Ethiopian export commodities offer should be diversified and in addition to primary agricultural products export more attention should be given to fully and better processed, value added manufactured items, which can increase level of foreign currency reserves and facilitate import substitution.
- ✓ In order to make Ethiopian export products competitive in the world market, special attention should be given to the issue of quality through better production methods, innovative packaging and storage and by maintaining a strong supply chain management.
- ✓ Ethiopian exporters should improve their management capacity by hiring skilled professionals and managers, conducting export market research and by organizing themselves in form of associations. They should also take advantage of the opportunities created by regional economic integration agreements. In addition, Ethiopian exporters should make a kind of portfolio analysis in order to choose which products export and where to export, and exploit a favorable geographical location, so near to Europe, Asia and the Middle East.
- ✓ In order to minimize the challenges for Ethiopian export commodities in getting access to international market, special attention should be given to the sector by the government, by the exporters and by other institutions involved. At this regard, government can play a key role by revising its foreign trade policies and strategies to support the export sector trough liberalization, and by joining and/ or strengthen regional economic integration.
- ✓ In addition, maintaining the necessary infrastructure and availing capital through banks would help the Ethiopian exporters to get access to world markets. Moreover, Ethiopia can subscribe bilateral as well as multilateral agreements with different countries to boost

the export demand. The Ethiopian government may also decide to support more import substitution, in order to reduce imports and to save cash outflows.

- ✓ The parties involved in export processing should improve their performance too. For example, the Ethiopian Customs Authority should assign skilled personnel and cut its long procedures in order to reduce delays. In addition, export processing parties should be networked to improve efficiency and coordination. The Ethiopian export promotion department should do more efforts on providing updated information to the business society and awareness creation about new developments of international trade rules and regulations.
- ✓ The need of diversification of commodities offer and market of destination should be considered too as a strategic aspect.

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