

# **PROFILE OF ETHIOPIA'S EXTERNAL TRADE**

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## **1. INTRODUCTION**

One overriding feature of the current global economy is the increasing integration of countries in the world economy. International trade, *inter alia*, is believed to facilitate this globalizaion process. Understanding this globalizaion process has paramount importance for developing countries such those in Africa. Notwithstanding the fact that African exports to the world are negligible (in the vicinity of 2% in 1990s), African countries are relatively more dependent on the external sector than any other part of the developing world. Such dependence on external sector is increasingly accentuated by evolving commitments at national (such as **Structural** Adjustment Programs), regional (for instance Ethiopia is the member of the **Common Market** for East and Southern Africa, COMESA, and Inter governmental Authority on Development, IGAD) and international level (such as the World Trade Organisation, WTO - Ethiopia has requested for accession).

Both the ongoing globalization process and liberalizaion commitments at World Bank/IMF, Regional Economic Communities (RECs) and the WTO level can not be sensibly understood unless the existing pattern of trade and trade related policies are studied. Moreover, as part of the Agricultural-Led Industrialisation Strategy of the government, external trade is accorded a special status. This calls for an in-depth study of Ethiopia's external trade. Such a study needs to be conducted at different phases. The first phase should basically focus on stock taking so as to have a general picture of Ethiopia's external trade. The Second phase of the research can move towards modelling of the external sector so as to inform policy making. This paper is a modest attempt to address the first phase of a possible study on the external sector of Ethiopia. It is also motivated by an attempt to update previous works (such as Ghiorgis 1992, and Yohannes 1992) that appeared on the proceedings of the first annual conference on the Ethiopian Economy.

The rest of the paper is organized as follows. In section two, I will briefly touch upon the major cannons of the international trade theories by highlighting their relevance in African context. The objective is to introduce the reader with the major strands of the literature and their development. In section three I will attempt to show the major features of the Ethiopian external trade. Section four will conclude the paper.

## **2. A BRIEF THEORETICAL OVERVIEW**

The questions of why trade between countries? And who gains from it? have a long history in the international trade literature. The theoretical answers to these questions could give us an insight to understand African trade with the North. Historically, although the desire to accumulate precious metals (gold bullion) in early mercantilist time was an important matter, the mercantilists of the early 17th and 18th century were very suspicious of foreign trade (See Negishi, 1989: 8-11). It is against this background the doctrines of the classical school, absolute and comparative advantages, have emerged. The classical school and its trade theory, as given by Smith (1776) and Ricardo (1817), evolved as a critique to the early mercantilism. Being developed as an argument against restraints on foreign trade, Smith's theory of 'absolute advantage' stated that if two countries have an absolute advantage (understood as lower labour cost) in the production of two different commodities, it is "more advantageous to buy of one another than to make what does not belong to their particular trade" (Smith 1776). Although, Smith's analysis was important, especially in the context of the dominant mercantilist view, it was Ricardo who developed the classical trade theory by going beyond the absolute advantage to the comparative one.

Using his famous example of Portugal and England, Ricardo stressed that trade between countries (even when there is no absolute advantage) could increase the welfare of the two countries because they can specialise in the craft in which they have a comparative (cost) advantage. Based on the assumption of 'perfectly free commerce' and assuming away the movement of capital across nations for security and socio-historical reasons of the capitalist (country of birth, habit etc.), Ricardo noted, "...exchange might take place, notwithstanding that the commodity imported by Portugal could be produced there with less labour than in England". He continued, this is advantageous to Portugal because she can employ "her capital in the production of wine [in which she has a comparative advantage] for which she would obtain more cloth from England, than she could produce by diverting a portion of her capital for the cultivation of vines to the manufacture of cloth" (Ricardo, 1817: 135). The major problem of this theory is that it presumes comparative advantage as given. In African context, as that of the 18th century Portugal, the theories entail specialising in primary commodities which is one of the major problems of the South in general and Africa in particular (See Alemayehu (1998) for detail). Besides, the Ricardian theory comes to halt when the question 'what might become the source of comparative advantage if knowledge and skill were to be universalised, thereby eroding the basis for inter country production function differences' is asked (Stein, 1984:3). This question in the early 1920s and 1930s led to the development of the factor endowment theory and hence the implied recommendation to the South (such as Africa) to specialise in primary commodities.

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The rigidity of the classical school's assumptions about the structure of costs, among others, led to the evolution of the neoclassical (or orthodox) trade theories developed at the turn of this century. Based on the works of the Swedish economists Heckscher (1919) and his student Ohlin (1933), the neoclassical trade theory emerged by focusing on 'factor endowments' variability as the source of trade. This theory extended the Ricardian theory to two factors (labour and capital), two countries having internationally uniform production functions (with crucial assumptions like: perfect competition, internal resource mobility, full employment, no trade impediments and transport cost, linear homogenous production function etc.) where the rule of the game for each country is to export its product which intensively uses its abundant resource (Ohlin 1933, Heckscher 1919).

As noted by Samuelson, one major problem with the Heckscher-Ohlin (HO) model was the assertion by Ohlin (1933) of the impossibility of factor-price equalization with free commodity movements (Samuelson 1948). Moreover, the fact that the possibility of bias in the test of consumers of a country towards its abundant factor based goods might offset the bias in production that would have been dictated by factor endowment. This creates a contradiction between physical and factor price definition of factor abundance (See Sodersten and Reed 1994). The latter is resolved following the assumption of identical (homothetic) test in the two countries and the former following the demonstration of the possibility of factor price equalisation based on the works of Samuelson and Stolper (1941) and Samuelson (1948) - and hence the name Heckscher-Ohlin-Samuelson Model. The Stolper-Samuelson work strengthened the HO model by concluding that free international trade rewards a country's relative abundant factor and hence raises its price and decreases that of the scarce one. In the process it leads to factor-price equalization. This model became the dominant trade theory in mainstream economics (which is referred as the orthodox model in this paper). It should be noted that both the classical and H-O-S schools' theories are based on various limiting assumptions the validity of which is questioned by other schools. It should also be noted that, as that of the Ricardian theory, the H-O-S model suggests specialisation in primary commodities for African countries (especially of in tropical products).

Apart from questioning the validity of the underlying assumption of the above theories, the inadequacy of them to explain the reality was a major problem. One shattering blow came from the study of Leontief who empirically demonstrated that US's imports in 1947 appeared to be more capital intensive (in which it is endowed) than its exports- hence the 'Leontief Paradox'<sup>1</sup>. Leontief's conclusion is derived from an input-output table where he noted that exports required \$2,550,780 (1947 price) of capital

<sup>1</sup> Emmanuel (1972) is cynical about the use of the term 'paradox' in (neoclassical?) economics. In a related situation he noted, "Paradox [is] the label under which economic science classifies, with interest, amusement and distant politeness, all those things that are too solid to be purely and simply rejected but are too baffling to be adopted" (Emmanuel, 1972:xv).

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and 182.2 labour (man (sic) years), whereas import competing goods utilized \$3,091,339 of capital and 170 labour (man (sic) years). He, then, concluded "America's participation in the international division of labour is based on its specialization on labour intensive, rather than capital intensive, lines of production"(Leontief, 1954: 522-523)<sup>2</sup>. The Leontief paradox combined with growth of inter-industry trade underlined the need for other theoretical explanations. Linder (1961), noting export as being the end, not the beginning, of a typical market expansion, hypothesised that "the more similar the demand structure of two countries, the more intensive [empirically understood as import of a country divided by its GNP] potentially is the trade between these countries"(Linder 1961).

By late 1950s and 1960s the importance of technology in explaining world trade patterns led to the emergence of trade theories based on technological gap models. Following the works of Posner (1961), Hufbauer (1966) and Vernon (1966), the 1960s witnessed a wave of theories which attempt to explain trade patterns based on the technology gap among trading countries (See Cheng 1984 for a survey). Posner (1961) in his seminal work questioned the prime significance of the factor endowment theory to explain trade patterns. He underlined sequential innovation and the interaction of the gap between other countries consumer's acceptance for a new good (the demand lag) and other countries' producers adoption and reaction (imitation lag) as a source of finite flow of trade among countries even when the H-O requirements are not there (Posner 1961). The technological gap theories were usually regarded as complementing the neoclassical theory.

The apparent failure of all these theories in explaining the evolving trade patterns, especially among developed countries, led to the development of other theories that are based on imperfect competition and scale economies – usually termed as the 'new' trade theories. The late 1970s and early 1980s theoretical discussion about international trade was clearly distinct from that of the earlier period. Partly inspired by the technological gap models of the 1960s (see Posner, 1961:329 for instance) and the dynamics and industrial organization theory their exposition implied, writers like Krugman (1979b, 1980, 1981), Dixit and Norman (1980), Lancaster (1980), Helpman (1982), Ethier (1982), Lall (1973) and Helliner (1981) have developed what might be called the 'new'<sup>3</sup> trade theories. According to Krugman's (1992) excellent summary there are at least two distinct features of these theories that distinguishes them from the traditional ones. First, the importance of increasing returns/scale economies as the cause of trade and second the need to model international markets as imperfectly competitive (See Alemayehu 1998 for detail).

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<sup>2</sup> See Alemayehu (1998) for the debate on the Leontief paradox.

<sup>3</sup>Some international economists like Kindleberger have argued that there is nothing new in the new trade theories. They argue, some of these ideas had been discussed for instance in Ohlin (1933) (See Krugman, 1992:425). There is also no clarity as to which should be included in the 'new'. Stewart (1984) for instance included technological gap models in this category.

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Parallel to this development, however, there is a critical (non-orthodox) school which provided an alternative analysis about both the patterns of trade and the gains from it. Analysts in this school primarily focused on North-South trade where the South is mainly primary commodity exporter and importer of manufactured goods. Since primary commodity is the most important component of South's trade these theories particularly emphasised the deterioration of the South's terms of trade and the reasons behind it (Prebisch 1950; Singer 1950). Elsewhere (Alemayehu 1998) I have discussed the implication of these theories to African trade. In this paper the brief review above is meant to give a background theory to the discussion below.

### **3. PROFILE OF ETHIOPIA'S EXTERNAL TRADE**

#### **3.1. Ethiopia's External Trade Policy**

An examination of the external trade policy of the three successive regimes in Ethiopia (the pre-1974, 1974-1991 and the post-1991) reveals that the country's external trade policy has moved from a 'free trade policy' to 'a controlled trade policy regime' and back to 'a free trade policy' one.

##### **3.1.1. The Pre-1991 Period**

Before the 1974 popular revolution, the foreign trade policy of the country was largely informed by 'the free trade' doctrine of the Ricardian type. Various measures to facilitate trade, such as the establishment of the Chamber of Commerce, the establishment of various boards (Coffee Board, Grain Marketing Board, and Office of National Standards), were taken. These measures were aimed at controlling the quality of imports and exports and facilitating trade. In terms of imports, imports of capital goods and raw materials were free of duty while others were taxed (MIT, 1987).

The period 1974 -1991 was on the other hand characterized by a centralized economic system, where the state is given a significant role in all spheres of economic activity including external trade. The period is characterized by

- a) an attempt to control and eventually curb the participation of private capital in trade and strengthening the state's role both in export and import trade
- b) an attempt to closely monitor the price, quantity and distribution of goods
- c) giving especially emphasis to external trade sectors deemed essential for economic growth and in the trading of medical equipment and goods that ensure the health and security of the population.

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- d) An attempt to diversify the type and destination of goods (especially from developed capitalist countries towards socialist countries) externally traded.

### **3.1.2. The Post-1991 Period**

The post-1991 government's foreign trade policy has the following objectives:

- (a) ensure private sector participation
- (b) manage the sector by issuing foreign exchange and import-export regulation
- (c) design and provide adequate incentive to the export sector
- (d) replace quantitative restriction with tariffs
- (e) encourage diversification of exports and minimize illicit trade and
- (f) carry out restructuring of the state owned trading enterprises.

To realize these objectives the post-1991 government has designed and implemented various policies and institutional measures. The most prominent ones are:

- a) liberalization of the exchange rate market using the auction system which will allocate foreign exchange both to the private and the public sectors.
- b) enormously simplifying licensing procedure
- c) supportive services to private exporters is designed in areas of transport, package training, overseas market research etc.
- d) In addition, a simplified tariff structure and foreign exchange retention scheme, as described below, is also designed (MIT, 1997).

In relation to point (d) above most goods which used to be imported duty free and those with specific duty rates are replaced by ad-Valorem rates. Goods dutiable or not are given a tariff code and classified on the basis of their type and characteristics into 21 sections and 99 chapters. These chapters contain 5291 goods classification of which 169 are duty free, 5119 with ad valorem rates from 5%-50% and 3 with specific rates (worn clothing, worn textiles and rags). Currently the weighted average tariff rate is 24.6%. The least tariff being 5% and the maximum being 50% (MTI, 1996: 17; MIT, 1997: 3). These rates were used to be as high as 230% in the previous regime (MIT, 1997). Apart from customs duty there are payments of sales and excise taxes on imported goods. The sales tax ranges from 5%-12% of the value of goods depending on the nature of the good. Similarly excise tax varies from item to item. The highest is 200% and the lowest 10% (MTI, 1996: 19).

With regard to exports an attempt to facilitate both export and licensing procedure is made. Currently there is no export duty except on coffee. The amount of customs duty on coffee is Birr 15 per 100 kg. There is also a transaction tax of 2% and cess tax of

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Birr 5 per 100 kg. Sur tax is also collected on coffee based on the daily sur tax rate of the international coffee market prices (MTI, 1996: 25).

The current government's policy has also established two types of duty incentive schemes. 'Duty draw back schemes' for those who wholly or partially or occasional engage in export sector and 'duty free importation scheme' to those wholly engaged in supplying of their products to foreign market (MTI, 1996: 25). Moreover, exporters have the right to retain 50% of their export earning and remittance in foreign currency in retention account. From the 50%, 40% shall be offered for sale by the account holder no later than 21 days from the date of entry to commercial banks at negotiated rates, or to the auction market through their banks. The remaining 10% should be used by the account holder for the purpose of import of goods and services, export promotion and any other payment specifically approved by the National Bank (MTI, 1996).

In general we observe that, compared to pre-1991 period, there is a major policy shift in the post-1991 period. Essentially the policy regime has shifted from a 'controlled regime' toward 'more liberalized' one. This change is chiefly related to the Structural Adjustment Program the country has adopted since 1992.

### **3.2. External Trade Performance**

#### **3.2.1. Ethiopia's Exports and Imports**

Ethiopia's external trade is characterized by exports of primary commodities and imports of manufactured goods. The export sector in particular is characterized by huge fluctuation and extreme dependence on few primary commodities.

As can be read from Table 1, in the last 10 years (for that matter even before) the export sector is characterized by over-dependence on few commodities such as coffee which constitutes nearly 65 % of export earning, followed by hides and skins. On the average the combined share of six major export items constitute more than 80% of total exports. Recently this figure is showing a declining trend (from nearly 90% in 1988 to 80% in 1997), however. Thus, high export concentration is the hallmark of Ethiopian export trade.

Developing countries such as Ethiopia are characterized by shortage of foreign exchange required to realize most development projects. One sustainable source of financing is growth of the export sector. As can be read from Table 2, however, exports as percentage of GDP were in the vicinity of 3-8% in the last decade while imports range from 8-24%. These figures show the gap between export earning and import requirement. As can be read from column two of Table 2, export earnings covered not more than 23-48% of imports in the last decade.

**Table 1. Percentage Share of Ethiopia's Major Exports in the Total Value of Exports for Selected Years**

Year	Live Animals	Haricot Bean	Sugar	Coffee	Hides & Skins	Petroleum & Petrol	Combined Share
1988	3.43	2.32	1.73	64.96	14.44	3.03	89.91
1989	1.54	1.37	1.81	65.05	14.60	4.00	88.36
1990	1.63	7.02	5.95	44.35	20.50	6.91	86.36
1991	0.37	0.93	0.94	61.63	13.29	0.68	77.83
1992	-	0.48	0.82	54.44	16.38	6.68	78.79
1993	0.48	0.96	2.46	64.09	16.10	3.98	88.07
1994	0.46	2.47	0.11	65.26	14.34	5.20	87.84
1995	0.20	3.34	-	60.50	12.67	2.65	79.35
1996	0.04	3.64	-	66.45	12.48	3.40	86.02
1997	0.42	2.72	-	65.26	10.10	0.65	79.15

Source: Computed from Data Obtained from Customs Authority.

It is interesting to note that the export sector suffers not only from high concentration ratio but also from low level of export even in that.

**Table 2. Export/Import, Export/GDP and Import/GDP Ratios for Selected Years**

Year	Export/Import	Export/GDP	Import/GDP
1988	0.39	0.07	0.19
1989	0.48	0.08	0.16
1990	0.28	0.05	0.18
1991	0.36	0.03	0.08
1992	0.23	0.03	0.11
1993	0.25	0.04	0.15
1994	0.34	0.07	0.22
1995	0.35	0.08	0.24

Source: Computed from Data Obtained from Customs Authority.

Table 3 shows the annual growth rate of major export items of Ethiopia. A striking feature of the annual growth rates of major exports is that they are characterized by an extreme fluctuation. This is aggravated by concentration of exports in few commodities. This pattern is the major factor behind export earning instability in the country. This in turn has implication on capital formation instability. Various factors are responsible for such performance. Some of the major reasons are poor weather condition, production and marketing problems, and the adverse impact of world commodity market on Ethiopia. It is also interesting to note from Table 3 that the



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worst export performance is observed either in the years of political turmoil or in the years of bad weather condition.

**Table 3: Annual Growth Rates of Total Exports and of Selected Major Export Items  
(Selected Years, Volume)**

Year	Annual Growth Rates				
	Total Exports	Coffee	Hides & Skins	Petroleum & Petrol	Live Animals
1989	-4.67	21.25	18.76	4.16	-56.36
1990	-7.09	-37.03	-22.47	-3.15	-31.67
1991	-70.91	-20.45	-54.74	-96.21	-89.64
1992	92.49	-14.12	23.21	1715.11	-
1993	19.39	58.86	78.98	2.79	-
1994	45.98	15.02	6.07	41.57	95.23
1995	-27.60	-4.91	3.07	-40.90	-74.10
1996	26.09	44.05	-11.28	7.12	-73.21
1997	7.33	7.74	24.56	-65.10	1389.44
<b>Average Rate of Growth (1989-1997)</b>	<b>9.00</b>	<b>7.82</b>	<b>7.35</b>	<b>173.93</b>	<b>165.67</b>

Source: Computed from Data Obtained from Customs Authority

Ethiopia's imports are characterized by imports of capital goods as well as raw material and semi-finished products. Such imported items had the lowest share of 53% in 1986. The comparable figure for 1995 is 70%. This is the reflection of the country's inability to produce producer goods. The country also imports a considerable amount of consumer goods (32% in 1995) from abroad.

When we examine this pattern over the period 1986 to 1995, we observe that the pattern is fairly stable. Compared to the late 1980's, however, there is a declining trend of the share of capital goods in total imports in the 1990's chiefly because of the increase in non-durable consumer goods imports. Perhaps this is related to the relaxation of the control on the latter commodities following the change of government.

Another interesting point that could be read from Table 4 is the bias against agriculture in terms of imports of capital goods (cf. trade and Industry).

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Table 4. Share of Selected Import by End Use (In Percent)

Imports	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
1.Raw Material	2.11	2.31	2.65	2.90	3.40	1.59	1.50	2.09	2.03	2.64
2.Semi-Finished Product	11.05	14.17	12.27	19.97	11.79	1.92	9.51	15.61	14.06	19.71
3.Fuel	8.02	9.96	10.13	11.33	11.90	12.49	22.87	21.64	16.06	11.29
4.Capital Goods(Trans)	13.19	20.22	21.34	8.62	12.88	26.70	12.68	11.57	13.99	15.31
5.Capital Goods(Agr)	2.72	2.25	1.12	1.10	0.76	0.62	0.35	0.25	1.45	1.54
6.Capital Goods(Indus)	16.48	24.57	24.47	26.91	26.53	22.71	16.24	14.71	15.22	18.90
7.Total Share of Development or Investment Goods (1+2+3+4+5+6)	53.57	73.47	71.99	70.83	67.26	66.03	63.15	65.87	62.81	69.40
8.Consumer Goods(Non Dur)	26.77	18.28	19.19	18.37	20.84	18.06	27.61	24.17	28.51	20.72
9.Consumers Goods(Dur)	5.96	8.12	8.65	10.50	11.73	14.84	9.24	9.75	8.87	9.77
10.Total Share of Consumer Goods(8+9)	32.73	26.40	27.84	28.87	32.57	32.89	36.84	33.92	37.18	30.49

Source: Computed from Data Obtained from Customs Authority

### 3.2.2. Export Markets

In terms of the destination of exports the bulk of Ethiopia's exports are destined to industrialized countries (Germany, USA, Italy, France, UK, Japan and Saudi Arabia in Asia, in particular). This pattern seems to remain unchanged over the past ten years. The only exception could be the increasing importance of Asian countries (in particular Japan and Saudi Arabia).

It should also be noted that a few countries such as Germany, Japan and Italy and recently Saudi Arabia are increasingly becoming important destination to exports from Ethiopia. Table 5 shows the need to increasingly diversify the destination of exports so as to avoid over-dependence on few countries.

Table 5: Share of Total Exports and Annual Growth Rates by Destination(1989-1996)

	Share of Total Exports (1988/89)	Share of Total Exports (1989-96)	Share of Total Exports (1996)
USA	12.40	7.35	6.11
Germany	23.20	26.87	29.72
Italy	6.50	7.73	7.43
France	4.90	4.37	3.39
United Kingdom	1.90	3.93	3.11
Other Europe	-	8.32	7.15
Asia	15.10*	29.59	29.74
Africa	-	40.71	12.43
Rest of the World	-	1.13	0.92

\* Only Japan and Saudi Arabia.

Source: Computed from Data Obtained from National Bank of Ethiopia.

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### 3.2.3. Terms of Trade

There are various approaches to measurements of terms of trade. Table 6 presents the simple terms of trade compute using export and import price index. The deterioration of the terms of trade of developing countries vis-à-vis the developed countries is a widely debated issue in international trade literature. The excellent data compile by Grilli and Yang (1988) is also tested using the new time series econometrics. The available evidence suggest that the famous Prebisch-Singer hypothesis is still valid, although the magnitude of deterioration is not as strong as has been claimed by their initial study (See Alemayehu 1998 for detail).

Ethiopia's terms of trade given in Table 6 gives supporting evidence to the Prebisch-Singer hypothesis. It can be seen that Ethiopia's terms of trade is continuously deteriorating especially starting from 1977, reaching its historic low in 1992. This trend is attributed both to the rising import prices and declining export prices.

Table 6. Evolution of the Terms of Trade

Year	Export Price Index, fob (1987=100,US \$-based)	Import Price Index, cif (1987=100,US \$-based)	Terms of Trade Index (1987=100,US \$-based)	Year	Export Price Index, fob (1987=100,US \$-based)	Import Price Index, cif (1987=100,US \$-based)	Terms of Trade Index (1987=100,US \$-based)
1970	38	23	166	1981	103	104	98
1971	34	24	141	1982	105	100	105
1972	42	28	148	1983	103	97	107
1973	56	34	164	1984	114	95	119
1974	57	55	104	1985	110	95	117
1975	55	57	96	1986	136	104	131
1976	98	59	167	1987	100	100	100
1977	149	64	232	1988	104	106	98
1978	113	73	154	1989	101	110	92
1979	131	84	155	1990	94	119	79
1980	119	101	118	1991	99	116	85
				1992	93	118	79

Source: World Bank, World Tables (Electronics)

This deterioration in terms of trade combined with the instability in the volume of exportables is making the external trade sector an extremely fragile one. This is depicted by the negative balance of trade recorded in the last decade which is given in Table 7 below.

Table 7: Value of Ethiopian Exports, Imports and Balance of Trade for Selected Years

Value(in million Birr)	1988	1989	1990	1991	1992	1993	1994	1995	1996
Value of Exports	429	465	298	189	169	199	372	423	438
Value of Imports	1129	943	1081	472	799	787	1033	-	-
Balance of Trade	-700	-478	-783	-283	-630	-588	-661	-	-

Source: Computed from Data Obtained from Customs Authority.

#### **4. CONCLUSION**

Ethiopia's external trade has major structural problems on the supply side. It is extremely dependent on few primary commodities. Exports are characterized by huge fluctuation in volume and a very high degree of concentration of exports on few commodities such as coffee. On the demand side, apart from the well know low income elasticity for the type of commodities that Ethiopia exports, it also faces declining prices for its exports and rising price for its imports in international market. Moreover, not only that the terms of trade is deteriorating but also the destinations of exports are limited. In the import side the imports are largely found to be capital goods.

This calls for an immediate action to strengthen the supply side, diversify both exports and market destinations and regulate imports. In terms of policy pragmatic balance between import substitution (to reduce the increasing level of imports) and export promotion (to improve the foreign exchange generating capacity) is required. Such policy also requires a strategy which advocates a conscious and informed state intervention to implement sensible incentive structure and institutional and capacity building. Carrying out such policy requires an in-depth study about Ethiopia's external trade. It is hoped that this paper apart from introducing the reader to the profile of Ethiopia's external trade can serve as a background material to such a study.

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1992	92.49	-14.12	23.21	1715.11	-
1993	19.39	58.86	78.98	2.79	-
1994	45.98	15.02	6.07	41.57	95.23
1995	-27.60	-4.91	3.07	-40.90	-74.10
1996	26.09	44.05	-11.28	7.12	-73.21
1997	7.33	7.74	24.56	-65.10	1389.44
<b>Average Rate of Growth (1989-1997)</b>	<b>9.00</b>	<b>7.82</b>	<b>7.35</b>	<b>173.93</b>	<b>165.67</b>

Source: Computed from Data Obtained from Customs Authority

Ethiopia's imports are characterized by imports of capital goods as well as raw material and semi-finished products. Such imported items had the lowest share of 53% in 1986. The comparable figure for 1995 is 70%. This is the reflection of the country's inability to produce producer goods. The country also imports a considerable amount of consumer goods (32% in 1995) from abroad.

When we examine this pattern over the period 1986 to 1995, we observe that the pattern is fairly stable. Compared to the late 1980's, however, there is a declining trend of the share of capital goods in total imports in the 1990's chiefly because of the increase in non-durable consumer goods imports. Perhaps this is related to the relaxation of the control on the latter commodities following the change of government.

Another interesting point that could be read from Table 4 is the bias against agriculture in terms of imports of capital goods (cf. trade and Industry).

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Table 4. Share of Selected Import by End Use (In Percent)

Imports	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
1.Raw Material	2.11	2.31	2.65	2.90	3.40	1.59	1.50	2.09	2.03	2.64
2.Semi-Finished Product	11.05	14.17	12.27	19.97	11.79	1.92	9.51	15.61	14.06	19.71
3.Fuel	8.02	9.96	10.13	11.33	11.90	12.49	22.87	21.64	16.06	11.29
4.Capital Goods(Trans)	13.19	20.22	21.34	8.62	12.88	26.70	12.68	11.57	13.99	15.31
5.Capital Goods(Agr)	2.72	2.25	1.12	1.10	0.76	0.62	0.35	0.25	1.45	1.54
6.Capital Goods(Indus)	16.48	24.57	24.47	26.91	26.53	22.71	16.24	14.71	15.22	18.90
7.Total Share of Development or Investment Goods (1+2+3+4+5+6)	53.57	73.47	71.99	70.83	67.26	66.03	63.15	65.87	62.81	69.40
8.Consumer Goods(Non Dur)	26.77	18.28	19.19	18.37	20.84	18.06	27.61	24.17	28.51	20.72
9.Consumer Goods(Dur)	5.96	8.12	8.65	10.50	11.73	14.84	9.24	9.75	8.67	9.77
10.Total Share of Consumer Goods(8+9)	32.73	26.40	27.84	28.87	32.57	32.89	36.84	33.92	37.18	30.49

Source: Computed from Data Obtained from Customs Authority

### 3.2.2. Export Markets

In terms of the destination of exports the bulk of Ethiopia's exports are destined to industrialized countries (Germany, USA, Italy, France, UK, Japan and Saudi Arabia in Asia, in particular). This pattern seems to remain unchanged over the past ten years. The only exception could be the increasing importance of Asian countries (in particular Japan and Saudi Arabia).

It should also be noted that a few countries such as Germany, Japan and Italy and recently Saudi Arabia are increasingly becoming important destination to exports from Ethiopia. Table 5 shows the need to increasingly diversify the destination of exports so as to avoid over-dependence on few countries.

Table 5: Share of Total Exports and Annual Growth Rates by Destination(1989-1996)

	Share of Total Exports (1988/89)	Share of Total Exports (1989-96)	Share of Total Exports (1996)
USA	12.40	7.35	6.11
Germany	23.20	26.87	29.72
Italy	6.50	7.73	7.43
France	4.90	4.37	3.39
United Kingdom	1.90	3.93	3.11
Other Europe	-	8.32	7.15
Asia	15.10*	29.59	29.74
Africa	-	10.71	12.43
Rest of the World	-	1.13	0.92

\* Only Japan and Saudi Arabia.

Source: Computed from Data Obtained from National Bank of Ethiopia.

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