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Ethiopian Economics Association

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Research Brief

The Performance of Ethiopia's Agricultural Export Sector

Introduction

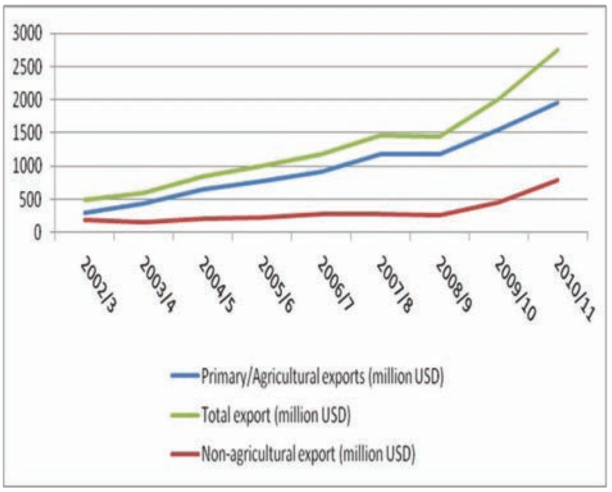
The issue of accelerated economic growth has been the main agenda of the Ethiopian government, especially since 2002/3 (MoFED 2002[1]; 2006[2]; 2010[3]). One area that has been emphasized, in order to promote the economic performance of the country, is external trade, which generates foreign exchange needed to finance imports of essential goods and services for the economy. This research brief is largely drawn from the 2013 EEA's annual report on the performance of the Ethiopian economy. The purpose of the research was to shed light on the structure and performance of the country's agricultural export in the past decade. Findings are mainly based on data collected from the National Bank of Ethiopia. However, data from other sources (such as Customs Authority) were also used to a lesser extent.

Summary of key findings

Share of agriculture in total export

Ethiopia's export sector grew more than fivefold in the past decade from 483 million USD in 2002/3 to 2.7 billion by 2010/11. This is equivalent to a 25% growth rate per annum which is more than double that of the average growth rate of the past four decades (i.e. 1960/61-2000/01)[4]. Primary agricultural commodities are the major sources of growth in the export sector during this period. In fact, earnings from export of primary agricultural commodities grew rapidly and consis ently from a little higher than 300 million USD in 2002/3 to a little lower than 2 billion USD in 2010/11 (Figure 1). Moreover, the share of agriculture to total export proceeds increased consistently from about 63% in 2002/3 to 82% in 2008/9, though it slightly declined to 71% in 2010/11. In contrast to this, the share of non-agricultural goods (merchandise goods and gold) was, by and large, constant during the same period with a slight increase since 2008/9.

Figure 1: Performance of the export sector, 2002/3-2010/1



Source: computed based on reports from NBE

1 MOFED (Ministry of Finance and Economic Development), Ethiopia: Sustainable Development and Poverty Reduction Program, July 2002, Addis Ababa.
2 MOFED, Ethiopia: Building on Progress, A Plan for Accelerated and Sustained Development to End Poverty (PASDEP), 2005/6-2009/10, volume I, main text, September 2006, Addis Ababa.
3 MOFED, Growth and Transformation Plan: 2010/11-2014/15, Volume I: main text, November, 2010, Addis Ababa.
4 Debel (2002) reported that the average annual growth rate of export earnings during the period 1960/1-2000/1 was 10.2%. Debel Gemechu (2002). Exports and Economic Growth in Ethiopia: An Empirical Investigation. A thesis Submitted to the School of Graduate Studies of Addis Ababa University in partial fulfillment of the requirements for the Degree of Master of Science in Economics, ADDIS ABABA)

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Economic Knowledge for Optimal Decision!

Inside the agricultural export

Three commodities, namely coffee, oilseeds, and pulses, dominate the agricultural export. Between 1970/71- 2000/01 these commodities accounted for about 68% of the total export proceeds out of which about 80% was attributed to coffee. The contribution of these commodities in Ethiopia's export sector has even increased (though slightly) in the recent decade. In fact, the average contribution of these commodities was about 73% in the period 2002/3 -2010/11. A close look at the disaggregated figures show that the share of coffee declined by 10 percentage points during this period (as compared to the 1970/71-2000/1 period) while that of oilseeds and pulses increased by about 15 percentage points. Export of coffee, oil seeds and pulses grew on average by 6.6%, 22% and 23%, respectively, over the period 2002/3-2010/11.

While their contribution is quite small, new products are generating export earnings for the country. Meat and meat products, fruits and vegetables, and flowers are the new entrants into Ethiopia's export sector which generated about USD 79 million during the period 2002/3-2010/11. Trade in these non-traditional commodities accounted for about 10.5% of the total agricultural export earnings during this period. The contribution of Chat, which is getting more and more prominence over time, was even larger (i.e. 13.7%).[5]

Export earnings from non-traditional agricultural commodities grew faster than that of the traditional export commodities. That is, earning from the non-traditional export commodities grew on average by about 58% during the period under consideration which is by far greater than the growth rate corresponding to the traditional commodities (i.e about 25%). Nevertheless, the share of these commodities in the total agricultural export earnings is quite low compared to the traditional ones. In fact, they accounted for only about 14% of the average total annual earnings from agricultural export during 2002/3-2010/11.

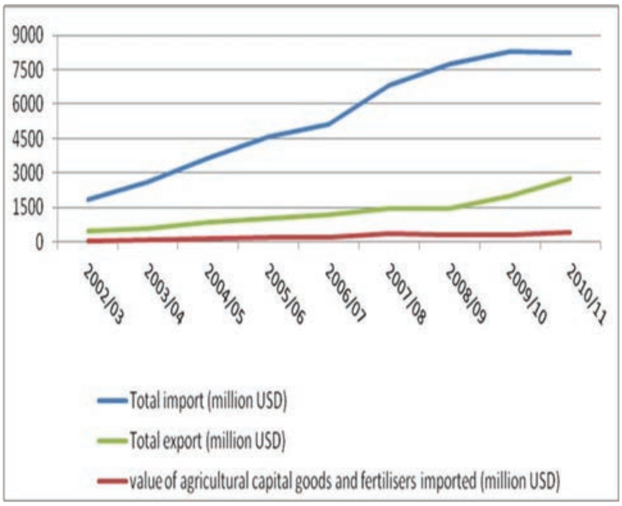
Agricultural export versus import

As a major component of the export sector, agricultural export could be assessed in terms of its capacity to pay for the country's imports. In this regard, total imports are by far greater than agricultural (as well as total) exports throughout the period 2002/3- 2010/11 indicating that earnings were short of imports (Figure 2). While agricultural exports grew by about USD 1,554 million between 2002/3 and 2010/11, total imports grew by USD 6,290 million causing an increasing gap over time between agricultural exports and total imports. In fact, agricultural export could cover only 24% of the total import in 2010/11. However, earning from agricultural exports were enough to pay for key commodities for agricultural production (such as farm machinery and chemical fertilizers) all the time during the period 2002/3-2010/11. For instance, earning from agricultural exports were greater than the total expenditure for purchase of agricultural goods and inputs6 by about 500% in 2010/11 though such expenditures also increased by more than 600% compared to that of 2002/3.

5 The export share of Chat in the total export earnings was 0.8 and 2.2 during the Imperial and Derge periods, respectively (Debele, 2002).

6 Due to data constraints, this includes only expenditure for import of fertilizer and agricultural capital goods.

Figure 2: Trends in agricultural export and import, 2002/3-2010/11



Source: computed based on reports from NBE and Customs Authority

Agricultural Export vis-à-vis Agricultural GDP

The relative growth in the agricultural export sector vis-à-vis the growth in the overall agricultural sector can be considered as an important long-term indicator to assess the performance of Ethiopia's agricultural sector given the country's comparative advantages in exporting several agricultural commodities, in raw forms as well as in processed forms (Berhanu 2003)[7]. In this regard, the share of agricultural export to agricultural GDP was assessed over time for the period 2002/3-2010/11. The result shows that the share of agricultural export in total agricultural GDP was about 12% between 2002/3 and 2010/11. The share was, by and large, similar to that recorded between 2002/03 and 2008/09 but has increased since 2008/09 indicating an increasing export orientation of agricultural production in recent years.

Recommendations

Traditional commodities such as coffee, oil seeds, and pulses still play a dominant role although efforts have been made to diversify exports within agriculture. Earnings from non-traditional commodities such as horticultural crops (including flowers) and meat products have increased in recent years but the share of these commodities in total export earnings is quite low. Given that the country has a high potential to produce horticultural crops and meat products and that demands for these commodities are high in world markets, more efforts should be made to exploit existing opportunities including providing tax incentives to firms investing in these businesses, expanding infrastructure (particularly those needed for perishable products), identifying and allocating more land for production and processing of these products, and promoting the sector in international trade forums (e.g. by organizing international trade fairs or supporting firms to participate in similar forums organized elsewhere). In this regard, lessons can be learnt from neighboring countries such as Kenya.

Agriculture has become more export oriented in recent years. This can be taken as a positive performance of the sector, as it shows the competiveness of the sector in international markets. However, the majority of the products are exported in raw forms, and processing is limited to a few commodities such as meat and leather products. While demands for primary (or raw) products in international markets are unstable, prices of these products are generally low which has contributed to low level of export earnings which do not commensurate with expenses on imported goods. Therefore, designing ways to shift away from exporting primary commodities to processed goods can be taken as a wise long term strategy to improve export earnings as well as to curb the rising deficits observed in the current trade balance.

7 Berhanu Lakew (2003). Prospects for Export Diversification in Ethiopia. NBE Staff Working Paper ERD/SWP/007/2003

Vision:

"To become the premier Economic association in Africa renowned for its excellence in membership services and economic policy research."

Mission:

" To represent the professional interests of our members, advance the discipline of economics and contribute to the development of the Ethiopian Economy"

Ethiopian Economics Association (EEA) is a non-profit, non-political and non-religious professional Association established in 1991. The objectives of EEA are:

- to contribute to the economic policy formulation capability and broadly to the economic advancement of Ethiopia ;
- to promote the professional interest of Economists;
- to promote the study of economics in the country's educational instittions;
- to promote economic research and assist in the dissemination of the findings of such research in Ethiopia ;
- to provide forum for the discussion of economic issues, and
- to promote professional contacts between Ethiopian economists and those of other countries.

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