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Ethiopia Trade Brief

Trade Policy

Ethiopia began trade liberalization reforms in the early 1990s. A Working Party to examine the country's application of membership to the WTO was established in February 2003, and held its first meeting in May 2008. The country's MFN Tariff Trade Restrictiveness Index (TTRI)[1] is currently 13.0 percent, slightly above that of an average Sub-Saharan Africa (SSA) (11.3 percent) or low-income (11.6 percent) country. Based on the MFN TTRI, Ethiopia ranks 109th out of 125 countries (where 1st is least restrictive). Agricultural exports into the country face higher barriers (15.7 percent) compared to non-agricultural exports (12.5 percent). The country's average MFN applied tariff is 17.3 percent, a slight increase over the value of 16.8 percent in 2007. The maximum MFN applied tariff (excluding alcohol and tobacco) is 35 percent.

To mitigate the impact of rising global food prices in 2008, the government banned the export of major cereals.

External Environment

Based on its Market Access TTRI[2] including preferences of 1.8 percent, Ethiopia enjoys more favorable access to international markets than its SSA (3.9 percent) and low-income (5.6 percent) comparators. The weighted average overall rest of the world tariff (including preferences) faced by the country's exports is also 2.5 percent, with agricultural exports, chiefly coffee, facing higher barriers (2.9 percent) than non-agricultural exports (0.2 percent). With pressure on foreign reserves as a result of soaring prices of fuel imports, the Ethiopian birr depreciated by 7 percent against the U.S. dollar in 2008.

Ethiopia is a member of the seven-country Intergovernmental Authority on Development (IGAD), which is currently planning to create a free trade area. As a further boost to its market access, the country, together with the other members of the Common Market for Eastern and Southern Africa (COMESA), is in negotiations with the EU to sign a full Economic Partnership Agreement (EPA). In the meantime, the country continues to have duty-free and quota-free access to the EU market under the "Everything But Arms" (EBA) initiative. COMESA also established a customs union in June 2009 with plans of fully implementing it by 2012. In April 2009, Ethiopia and neighboring Sudan, signed agreements, including one on trade, to enhance bilateral cooperation.

Behind the Border Constraints

Ethiopia ranked 107th in the Ease of Doing Business index in 2009, which compares the business environment of 183 countries. The country's score on the Logistics Performance Index (LPI), which measures the extent of trade facilitation in the country, is 2.33, on a scale of 1 to 5, compared to the averages of 2.35 for SSA countries and 2.29 for low-income countries. It ranks 104th (out of 150) in the world and 18th (out of 39) in the SSA region. Among the LPI subcategories, the country is strongest in ensuring the "timeliness of shipments in reaching their destination" and weakest in the "ability to track and trace shipments" categories.

Trade Outcomes

Ethiopia maintained its 2007[3] 5.9 percent real trade (in constant 2000 U.S. dollars) growth rate of goods and services in 2008, though this is expected to fall to 3.7 percent in 2009. Exports of goods and services growth slowed down significantly from 10.2 percent in 2007 to 3.1 percent in 2008, while import growth almost doubled from 3.8 percent to 7.3 percent. Import growth is, however, expected to slow down to 3.9 percent in 2009 and export growth is expected to improve slightly to 3.5 percent in 2009.

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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In nominal dollar terms, trade growth of goods and services accelerated to 28.3 percent in 2008 from 14.4 percent in the previous year. Exports of goods and services grew at 26.1 percent in 2008 compared to 20.7 percent in 2007, while imports, driven by soaring oil prices, grew at 29.1 percent compared to 30.9 percent in 2007. Both exports and imports are, however, expected to contract in 2009. Goods exports grew at 19.4 percent in 2008, boosted by higher sales for coffee and non-traditional exports including oilseed, pulses, flowers, and gold, although this represented a deceleration from the growth rate of 25.4 percent in 2007. Services exports were more resilient, growing at 33.4 percent in 2008, more than double the 2007 growth rate of 16.5 percent. For fiscal year 2008/2009, which ended in July 2009, exports fell by an estimated 1.1 percent, while imports grew by 17.3 percent.[4] FDI inflows to the country were 0.4 percent of GDP in 2008, dropping from 1.14 percent of GDP in 2007.

With plans to build several hydroelectric dams, electricity may soon replace coffee as Ethiopia's main export. Two new dams are due to start production before the end of 2009 and the country is expected to start exporting electricity to Sudan, Kenya, and Djibouti.

Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
3. Note that this data are reported for the calendar year, while local data are reported for the fiscal year. Thus substantive differences may apply as local data for 2006/2007 may be inaccurately referred to as 2007.
4. IMF, 2009(b), p. 18.

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