

ETHIOPIA: DIAGNOSTIC TRADE INTEGRATION STUDY
CONCEPT PAPER

OCTOBER 22, 2002

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Background

1. A High-Level World Trade Organization (WTO) meeting established the Integrated Framework (IF) in October 1997 to facilitate the coordination of trade-related technical assistance to least developed countries (LDC) and to promote an integrated approach to assist these countries in enhancing their trade opportunities. Participating agencies for the IF include the International Monetary Fund (IMF), the International Trade Center (ITC), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Program (UNDP), the WTO and the World Bank, supported by leading bilateral development partners. Between 1997 and 1999, forty of the forty-eight countries prepared Needs Assessments. Roundtables or Consultative Group meetings were held in five countries. Ethiopia too prepared a Needs Assessment at that stage.

2. An independent review of the IF, completed in June 2000, found that the program was not working well due to several reasons. These were the lack of linkages to overall development strategies or programs, weak ownership by the countries, inadequate coordination among the six agencies as well as among the LDC governments and inadequate funding for this program. The review was done with consultation of all parties to the IF and based on a survey of the LDCs. It recommended a basis for revamping the IF to realize its objectives.

3. Following a meeting of the Heads of the six agencies in July 2000, the IF was redefined and revamped to ensure better integration of trade with national development strategies and complemented by a trust fund for IF activities.¹ The new IF was created in July 2001 with a pilot-scheme to provide trade related technical assistance to countries committed to integrating trade into their overall development strategies. The pilot scheme defined the principles for coordinating such assistance, funding and management of the process. Three pilot studies under the new IF were completed for Cambodia, Madagascar and Mauritania.

4. The pilot scheme introduced Diagnostic Trade Integration Studies (DTISs) as a vehicle to integrate trade issues into country strategies. They were found to be a substantial improvement on the Needs Assessments done under the previous IF program. A DTIS is a preliminary step in the IF process and it begins by giving policy and strategy content to trade issues identified in the Poverty Reduction Strategy Papers (PRSPs). Since a PRSP has already been completed for Ethiopia, the DTIS contemplated for Ethiopia becomes a necessary complement to it, deriving its main thrust for trade strategy and technical assistance from the enabling framework provided by the PRSP.

5. The purpose of DTIS is to identify key constraints to the country's integration into the multilateral trade system and the global economy. For Ethiopia, a country with a large

¹ The following countries and agencies have made pledges to the Trust Fund. These are Canada, Denmark, the European Commission, Finland, France, Ireland, Japan, the Netherlands, Norway, Sweden, Switzerland, UNDP, United Kingdom, United States and the World Bank.

resource base and potential, greater participation in world trade would provide additional opportunities to transform its resources to address economic growth and poverty reduction. Given Ethiopia's size and geographical location, it is perhaps not surprising that its ratio of trade to income remains low. On the other hand, making the country more tradable through removing the present barriers to trade behind the border, at the border and beyond in importing countries could provide it with additional opportunities to raise growth and reduce poverty. To avoid the vicissitudes of adverse terms of trade shocks, Ethiopia has to diversify its export base in a manner to foster efficiency. Trade diversification can only be contemplated in the context of growing exports. Thus, the growth in trade is a means to an end and not the end itself.

6. Since Ethiopia is not a member of the WTO, no Trade Policy Review exists for the country. This is a considerable handicap for the analysis of trade issues. The DTIS will carry forward the analytical work done with respect to trade in recent economic and sector reports on the country and incorporate new material and analysis from several sources². These would include new work based on the November 2002 DTIS mission, surveys on investment and enterprises under way and planned for the immediate future and the mission's work in the field including discussions with the main policy makers, the private sector and civil society in Ethiopia. In addition, the DTIS will reflect the discussions and guidance received from the National Steering Committee and the Technical Group at the Launch workshop to be held on November 7th 2002, in Addis Ababa. The workshop will also ensure that the trade issues identified, analyzed and presented at the workshop are consistent with the PRSP.

7. Based on the analysis and DTIS, the study team will suggest a program of technical assistance to strengthen the ability to increase Ethiopia's participation in world trade by enhancing its competitiveness to derive larger benefits from trade than at present. A second workshop scheduled for March 24th 2003 will discuss the draft DTIS with the main stakeholders. The intent of the workshops is to raise the profile of trade issues among all the stakeholders.

Main Issues for the DTIS

8. The DTIS will identify the key constraints to the country's integration into multilateral trade system and into the global economy. It takes as its point of departure for inclusion and analysis, trade issues presented in different parts of the PRSP document to provide a unified approach to trade integration. In addition, the DTIS will provide an action-oriented program for addressing trade integration issues, giving content that is more detailed to the goals for trade found in the PRSP. The discussions during the preliminary mission with the highest-level officials of trade and finance revealed their commitment to greater trade integration. The main issue to be addressed is the means to achieve this goal that would lead to the best possible outcome for the country. The sub-sectors to be analyzed below were selected following consultations with the Ministry of Trade and Industry and the Chamber of Commerce, among other stakeholders.

² See Appendix A for a list of the recent work done on Ethiopia with respect to trade related issues.

9. The DTIS for Ethiopia will include the following elements described under the following headings:

Economy-Wide Issues

Issues Arising From The Country's Economic And Export Performance

10. The DTIS highlights the main economic trends, particularly following the reforms initiated since 1991, and derives from them key issues that need to be addressed to overcome the main constraints to trade integration. Ethiopia remains as one of least trade-oriented countries in the continent and a challenge to analysts to find the reasons for this feature of the country. An issue that requires particular attention is that despite the reforms initiated since the early 1990s, there is a perception among the highest circles of Government that little progress has been made in the trade area. This is despite the important policy shift following the Derg period.

11. GDP growth has averaged close to 5% in the last decade reversing a trend in low and negative growth in the earlier decade. Given the present rates of population growth, per capita GDP growth needs to be around 8.5% to reduce poverty by half by 2020. The national poverty line is defined at \$165 per year or a mere \$0.045 per day. Such a GDP growth target would need much higher rates of domestic investment than at present and higher total factor productivity than in the last five years. To the contrary, there have not been large increases in investment nor in productivity growth. In fact, total factor productivity growth (a measure of efficiency) has either remained stagnant or fallen in some sectors such as in the manufacturing private sector.³ Productivity growth in the agricultural sector while positive has been low on average. Since the bumper crop of 1996-97, agriculture growth has been modest. Another worrying feature is that the increase in output in the agricultural sector was more related to increasing land under cultivation (probably into marginal land) than increased productivity per hectare.

12. Agriculture's share in GDP has been falling in the past decade, as to be expected in a growing economy. However, not industry but services grew during the decade. Even here, public consumption expenditures contributed to growth in services. These trends call into question, why the reforms of the past decade have not improved economic performance more than it has done and, why growth has been factor-augmenting variety than through efficiency growth. Ethiopia's low growth is due to the low investment, the lack of efficiency gains despite the reforms and what is generally described as a poor business environment.⁴ It is thus incumbent to ask the extent to which greater trade opening could improve efficiency, induce more private investment and encourage greater assimilation of technological progress in the country. The increase in competition could

³ Based on a surveys conducted by the Central Statistical Authority, it is seen that the total factor productivity has declined in manufacturing sector, leading to the private sector becoming less competitive over the last three years.

⁴ A Private Sector Development workshop conducted in May 2002 revealed many facets of the poor business environment. While there is no doubt it has improved since the early 1990s, there is much to be done to provide a strong impetus to the private sector to lead the development effort.

provide a shot in the arm to get the economy vitalized through greater private sector participation.

Issues Related To The Macroeconomic Environment And The Investment Climate

13. Ethiopia has been able to achieve price stability following the cessation of hostilities with Eritrea and have a sustainable current account deficit financed mostly by official capital inflows⁵. The Government was able to bring fiscal accounts under a measure of control following the increase in military expenditures during the war. This, combined with a bumper harvest in 2001, led to a decline in the consumer price index. In 2000/01, inflation was negative 7.2% and is expected to rise but remain close to international inflation, around 3.0%. The international prices of Ethiopia's main export, coffee, have fallen leading to a large negative terms of trade shock to the economy. Despite the shock, the economy maintained macroeconomic equilibrium. An assessment done by the IMF in connection with the Poverty Reduction and Growth Facility (PRGF) found that macroeconomic performance was broadly satisfactory.

14. For the future two challenges will dominate the economy in the macroeconomic area. These are to (a) identify the elements of a "trade friendly" macroeconomic environment that leads to stable prices and real exchange rate and (b) to identify the proper policy stance needed to withstand future shocks to the economy, emanating from international economic conditions and their inevitably large impact given the country's dependence on a single export crop-coffee. International prices and weather are the primary determinants of the country's economic outcomes at present, given the structure of the economy, its narrow commodity base and the low level of its development.

15. A more open and an diversified economy would provide better opportunities to use the country's resource base more efficiently and reduce the vulnerability to terms of trade shocks. A more open economy would also introduce greater flexibility to the economy. The DTIS will address the issues that are needed to have a pro-poor and pro-growth macroeconomic policy as well as microeconomic policies that address the crucial issues of efficiency and diversification.

Issues Related to the Trade Regime and the Related Incentive Structure

16. The DTIS will take a close look at the trade regime and its underlying incentive structure to establish the relative incentives to produce for the domestic and the world market. It will examine the observation made by Ethiopian policy makers that trade liberalization to date has not led to any significant improvements in the trade outcome, both in terms of increasing exports or raising national income. It is noteworthy, that the country has no significant quantitative restrictions on imports save for some domestic barriers. Its average level of tariffs is 19.5% and this will be reduced to 17.5% under the aegis of the IMF's PRFG. However, the variance in tariffs is large. Meanwhile, it is well appreciated at the highest levels of policy making that the significant barriers may be those "behind the border" types, ranging from high transport costs, access to inputs

⁵ See Appendix B on Selected Macroeconomic Indicators and Trade Statistics.

including land, credit and imported inputs, licensing and regulatory framework in place. Trade facilitation issues (see section below) may be a factor in the low trade orientation of the economy.

17. The constraints to trade are more identified with those related to private sector development than the trade regime. However, private sector development issues go well beyond the issues of trade in general and work related to the IF in particular. Nevertheless, it would serve the analysis well to get a good handle on the underlying incentive structure for trade and investment, including foreign direct investment. Another part of the inquiry would be the relationship between FDI and exports and the opportunities that Ethiopia could avail itself, even with its limited amount of skilled labor. It could participate in the international value adding processes or “dis-integration” associated with the splicing of the production chain so a country like Ethiopia could produce components requiring less skill and expand trade in manufactures.

18. Since the DTIS is largely concerned with trade, issues related to the trade regime and the related incentive structure will be of central importance. It will analyze the present status of Ethiopia’s trade regime, recent trade performance, trade structure and, specific aspects of trade policies. It will also examine the interaction of trade policies with the investment regime, identify the principal constraints to having a larger role for trade in the economy and technical assistance needs to bring that about. Towards this end the following areas will be addressed:

- (a) Assessment of the extent of the reforms that have taken place in Ethiopia since 1991 and evaluation of the incentive regime faced by exporters and importers. It will examine the incentive structure for producing for export and for the domestic market and in relation to the main sectors such as agriculture, manufacturing and for a few key sub-sectors such as coffee, pulses and oil seeds, horticulture, sugar, textiles and clothing and leather goods as well as main imports ranging from machinery to imported industrial inputs. The sub-sector work related to these areas will provide a more microeconomic view of the trade regime.
- (b) Analysis of the tariff structure, the coverage of imports by quantitative restrictions (very limited by statute but nevertheless could be important in practice), the impact of exchange controls and any remaining trade barriers and subsidies to estimate the bias against exports. Other things remaining the same, in nominal terms the bias is already present for exports that do not have full access to the duty drawback, bonded warehouses and such compensatory mechanisms to help exporters. Or when de jure access does not lead to access in practice.
- (c) The study will attempt to take a first cut at estimating effective rates of protection, their levels and dispersion to the extent there are studies that are already done or are on-going to quantify the incentives structure. This will help to determine the extent to which incentives are neutral among sectors or a skewed in favor of some sectors while biased against others.

- (d) Evaluate the special regimes for exports such as bonded warehouses, free trade zones and special access arrangements to provide “free trade or near free trade status to exporters” that are a part of the export strategy of Ethiopia to date.
- (e) Analyze the relationship of FDI to exports and examine the nature of this relationship. Evaluate the presence or absence of restrictive trade and industrial policies on the size and the nature of FDI. In the new exporting countries such as Thailand, Malaysia and Vietnam, there is a close relationship between exports and FDI.
- (f) Identify the key constraints to expanding exports and imports. Evaluate plans and programs under consideration to promote exports in the major markets and specific niche markets for Ethiopian exports.
- (g) Identify technical assistance needs of the trade sector including laboratory facilities to certify the quality and the origin of the exports and imports and labor needs to provide trade services, to make trade policy and to facilitate trade to be able to compete with other countries with similar goods and services.

The International Policy Environment That The Country Faces With Respect To Its Major Markets

19. Ethiopia is still not a member of the WTO. This prevents it from having recourse to legal mechanisms available to member countries such as the Dispute Settlement Mechanism. Moreover, without special access arrangements extended to it, Ethiopia is unlikely to benefit from the rescinding of the Multifibre Arrangement in 2005. Its markets are in Europe, Asia, Africa and the United States. New preferential access is granted to LDCs like Ethiopia under the Everything but Arms (EBA) initiative of European Union, the African Growth Opportunities Act (AGOA) of the US and there is the prospect for preferential access into the Common Markets of East and South Africa (COMESA). Some 85% of exports are concentrated in coffee, which accounts for more than 50% and chat, pulses and oil seeds and hides and skins make up the rest. These products face different access issues. The DTIS will examine the issues involved in increasing market access for these products. In addition, it will undertake simulations of improved access, if some likely scenarios are played out once the Doha Agenda makes progress in such areas as in agriculture, manufactures (including textiles and garments) with special access arrangements to LDCs. The DTIS will relate market access issues to the poverty outcome noting that market access will have quantifiable welfare impact on the poor.

Market Access Issues

20. The study will analyze the geographic and product composition of Ethiopia’s exports. It will enumerate and describe Ethiopia’s exports by product at the 6-digit level of the Harmonized System (4200 products) and at higher levels of aggregation and thus provide a good description of Ethiopia’s exports by country at the aggregate level and at the product level. With respect to market access, the DTIS will discuss the tariff and non-

tariff barriers faced by Ethiopia's products among the main trading partners and identify border barriers that constrain exports.

21. The study will undertake simulations that will quantify the likely increase in exports to be achieved by reductions in the barriers in the major markets. These simulations will provide (1) A quantification of the impact on exports if COMESA were fully implemented (full preference + Common External Tariff (CET); the CET is still to be negotiated but the structure that it should have is already available; i.e., 0 percent on capital goods, 5 percent on intermediate goods, and similar conditions). (2) An attempt to quantify the impact that a 50 percent reduction in agriculture domestic support by WTO members may have on Ethiopia exports. (3) The study will attempt to quantify the impact that the US initiative for Africa, AGOA, had on Ethiopia exports so far, as well as a describe the impact that the Cotonou REPAS may have on Ethiopia. And it will attempt to evaluate by how much Ethiopia could be exporting under AGOA? How much could they export if rules of origin were made less stringent? Who would be receiving the rents from preferential access: Ethiopian exporters or US importers? A similar analysis could be undertaken for EBA if data were available. (4) Finally this section will discuss of the implications that the Cotonou Agreement and the 2007 REPAS may have on Ethiopia (from the market access perspective very little probably; the problem may be with the reciprocity required in REPAS). Some of these questions may not be answered in full due to data limitations in some specific areas.

Other Aspects of Integration

22. Greater participation in the international economy such as through debt and capital flows is beyond the scope of the DTIS, they will be addressed in so far as they impinge on trade issues such as the relationship between trade and FDI and between capital flows and exports via their effects on the real exchange rate.

The Legal And Regulatory Framework For Trade And Investment

23. An important component with respect to the trade and investment nexus is to examine the legal and regulatory framework that governs both these activities. It would include any specific ownership and conduct policies of firms that could rob the country of realizing the gains from its liberalization efforts to date.

24. The DTIS will evaluate the status of Ethiopia's regulatory and legal environment that impact on international trade. This would include the following:

- (a) The legal environment to form enterprises, buy land and movable property and transact business relating to foreign trade.
- (b) The basis of ownership of enterprises and licensing of enterprises, and identify any areas of investment and trade that are preserved for public ownership or not.

- (c) The impact of the current regulatory regime on acquiring inputs and the sale of products in foreign markets.
- (d) The status of business enterprises as to their eligibility to obtain licenses for trade related activities by type of ownership, type of activity or any other criteria that are applied to define eligibility.
- (e) The access to imported inputs, access to credit, trade facilitation in the sub-sector and ease of customs clearance for imported inputs and exports given the ownership of the enterprise and to determine whether there is a level playing field for different enterprises with respect to their rights to operate and have access to inputs and types of trade facilitation.
- (f) The nature of the investment regime: the conditions for undertaking investment in the country and eligibility criteria, if different for FDI (carrying forward the work done by FIAS (1997 and (1998) and the UNCTAD (2002) see Appendix B).
- (g) Assess the types of business enterprises that could operate in the country in particular, explore the possibilities for partnership arrangements, such as management contracts, sub-contracting, technical and marketing agreements with foreign firms and the overall treatment of foreign direct investment in the country. In addition, examine the experience of “quasi-privatization” of some firms where the management responsibilities are passed to private firms and the degree of success or lack of success to improve firm’s performance.
- (h) Evaluate extent and impact of alleged smuggling and dumping of cheap textiles and garments and to what extent legal remedies exist and are used to address these activities.
- (i) Evaluate the extent and the impact of the liberalization of the licensing system since 1991 for enterprises and the remaining agenda for further liberalization of the licensing regime to provide a level playing field to enterprises irrespective of ownership, affiliation with the governing party or any such attribute.
- (j) Identify technical assistance needs to improve the legal and regulatory environment for trade and investment.

Trade Facilitation

25. Trade facilitation is weak in the country such that the high cost of transport and clearance of inputs and final goods are said to act as a barrier to trade, albeit as a behind the border barrier. Transport will figure prominently in the analysis given its obvious importance.

26. The DTIS will attempt to evaluate the present status of Ethiopia’s trade facilitation in relation to the country’s main exports and imports.

- (a) Document the extent of trade facilitation problems, including transport perceived by Ethiopian exporters and importers, given the land-locked nature of the country and the near term loss of the shorter access to the sea through Eritrea and the switch to the longer distance to the sea through Djibouti, the low density of the road network compared to the other countries in the region, customs and other barriers to the smooth movement of goods to and from the country.
- (b) Identify the main problems relating to telecommunications, ports and airports and related trade facilitation aspects.
- (c) Estimate costs of trade facilitation services, especially those related to domestic transport (trucking), international shipping and insurance charges.
- (d) Analyze the ease or difficulties in customs procedure both for exports and for clearing import inputs. Some estimates of port costs (in terms of time spent, fees charged and other cost elements need to be identified) would be used to evaluate the nature of customs procedures. Analyze the type of pre-shipment inspections, new developments in customs procedures and valuation and the extent of computerization of customs procedures that is presently under implementation. Provide estimates of customs clearance cost of major exports such as coffee, leather goods, sugar, pulses, textiles and clothing drawing on the sub-sector work done for the study.
- (e) Document any technological innovations taking place in trade facilitation in Ethiopia to ease the movement of goods and reduce costs of trade facilitation as a percentage of the value of the products exported and imported. Describe the needed technical assistance to improve trade facilitation both through better management by public institutions that are directly involved in trade facilitation and indirectly involved in creating a regulatory environment.
- (f) Identify key technical assistance needs to increase output and to upgrade quality.

Institutions and Institutional Support for Trade

27. The DTIS would examine the institutional and capacity building challenges aspects of trade integration noting the present arrangements for trade policy making, their implementation and monitoring. It will identify specific needs of the country to run a more efficient and results-oriented trade system and the capacity building needs for such a system. The section will do the following:

- (a) Describe the status of Ethiopia's present institutional arrangements for trade and institutional support. Evaluate effectiveness and efficacy of institutional support for trade in Ethiopia. Review existing information on transactions costs involved in both export and import trade. These would include costs estimates for fees (both formal and informal), time taken to get a license for exports and imports, to secure commercial bank credit, foreign exchange licenses.

- (b) Review how trade policies, rules and regulations are enforced through different government and semi-government agencies.
- (c) Evaluate the various trade promotional activities undertaken by the Government and the enforcement of different product and quality standards ranging from those applied to coffee, tea and similar agricultural products and the use of technical and quality standards for specific imports.
- (d) Assess the presence or absence of restrictive trade and industrial practices and their enforcement by different government agencies. Note also that given the absence of exceptional protection measures in Ethiopia (anti-dumping, countervailing and safeguards measures) what rules and regulations, if any, are used to counter dumping and subsidization of exports by foreign governments.
- (e) Identify the key institutional constraints to expanding exports and imports and review any plans and programs for institutional reform under consideration to promote trade.
- (f) Identify technical assistance needs to improve the institutional arrangements for trade.

Trade and Poverty Issues

28. This DTIS will examine the poverty impact of the existing trade regime and the likely impact of reforms to integrate Ethiopia closer to the world economy. In this regard, the study will attempt to trace the channels through which trade policies affect poverty. Trade policy impacts poverty through prices, demand for unskilled labor, effects on public expenditure and revenues, economic growth and the income transfer mechanism. These channels would be identified to the extent data permits and are relevant for Ethiopia. The two expenditure surveys done in 1995/96 and 1999/2000 provide data points. These would be supplemented by parameters derived from cross-country experiences of countries that are situated in similar circumstances as Ethiopia.

29. This section will provide a general description of the determinants of poverty in Ethiopia both at the aggregate and micro levels. At the aggregate level, the study will look at what are the most important determinants of poverty across countries (inflation, growth, government deficit, government expenditure, exports of agriculture products, imports of agriculture products, exports and imports of manufacturing, similar variables). This will be done using a panel data set for low-income countries containing Ethiopia.

- (a) Determinants of Poverty. At the micro level, the DTIS will look at the determinants of poverty (or income) at the household level. The probability of being poor when (1) the household is located in a remote area, (2) is an agriculture household, (3) the main source of income is associated with the export sector (import sector), (4) the household is headed by a female, (5) the head of household is educated, (6) the head of household is old.

- (b) Impact of trade reforms on poverty. The trade reforms that will be examined include: (1) move to COMESA's CET; (2) move to a uniform 10% tariff; (3) move to the optimal tariff from the poor's perspective;⁶ (4) move to free trade. This chapter will mainly focus on agriculture households (due to the time constraint), but most of Ethiopia's poverty is in rural areas. This will be done using a two-step approach. In the first step, we will calculate the change in domestic prices associated with the changes in tariffs. In the second step, these prices will be sent to the household data to estimate the impact that these changes in prices will have on welfare.
- (c) Impact of improved market access on poverty. The changes in market access that will be examined include: (1) full preferential COMESA access; (2) 50 percent reduction of agriculture subsidies by WTO members;⁷ (3) impact of full EBA and AGOA access to the EU and US markets (and other OECD markets if relevant); (4) full preferential access to any of Ethiopia main markets; (5) impact on households' welfare of the Fair Coffee Trade initiative (that is: a minimum farm gate price per pound of \$1.26 compared to the actual of about \$0.60). Again, this section will mainly focus on agriculture households and the same two-step approach will be followed. More specifically, the most important crops in Ethiopia such as coffee, wheat, teff and chat will be included in this analysis.
- (d) Integrating the poor to the world markets. This section will estimate the pass-through price-elasticities in different regions following trade reforms. It will examine whether changes in international prices are reflected in price changes in remote areas. This will allow one to provide a second set of estimates for the impact that the different trade reforms analyzed above may have on the poor. But more importantly, it will allow one to identify where is it that investment in road infrastructure is most needed to reduce poverty in Ethiopia. Particular attention will be paid to differences in price transmission across crops. The role of different types of market institutions (no intervention, marketing board, other crop regulations) in explaining differences in price transmission across crops will be explored. The section will also briefly examine with proxies for the extent of tariff evasion at customs in Ethiopia and compare it with other countries in the region.

Sub-Sector Analysis of Trade Development

30. The DTIS will include the analysis of number of sub-sectors to provide more of a microeconomic basis of the issues to be analyzed. Similarly, the economy wide issues that impinge on each of the sub-sectors will help to clarify and support the conclusions with respect to different sub-sectors. The sub-sectors have been chosen after consultations with the main stakeholders (the Ministry of Trade and Industry, the Chamber of Commerce and among others). While there will not be detailed analysis of each sub-sector given the focus of the study, the analysis is expected to provide "an on the ground" character to the recommendations for technical assistance.

⁶ The full methodology can be found in Chen, Nicita and Olarreaga, (2002).

⁷ Changes in world prices can be obtained from Hoekman, Ng and Olarreaga, (2002).

The sub-sectors include manufacturing (textiles and garments, leather goods), agriculture (cereals, oil seeds and pulses, horticulture, coffee and sugar), and services (tourism). These sub-sectors are not selected on the basis of any special process but one based on consensus about most important activities in the economy. While their tradability differs, they are important in trade and income generation both directly and indirectly. Detailed information and data on some sub-sectors may not be available. But the use of local expertise combined with international expertise will provide a good approach to overcoming the challenges posed by this limitation.

Textiles and Garments Sub-Sector

31. A section of the DTIS will examine the present status of Ethiopia's textiles and garments sub-sector based on an analysis of the sub-sector's recent performance, its structure, policies and governing regulations, constraints to its development and technical assistance. The key areas to be analyzed are the following:

- (a) Determine economic importance of textiles and garments sub-sector in the economy in terms of output, consumption, exports and employment.
- (b) Examine the use of imported inputs in the sub-sector, access to credit, trade facilitation in the sub-sector and ease or difficulty of customs clearance for imported inputs and exports. This would help answer the charge in some quarters that the sub-sector is highly import dependent and that it does not provide adequate potential to increase domestic value added and export.
- (c) Analyze the cost structures in the sub-sector using the survey of manufacturing that is to be conducted by the Ethiopian Economic Policy Research Institute to determine the competitiveness of Ethiopia's textiles and garments production. This would help to assess the competitiveness of the sub-sector compared to a host of more successful textiles exporters ranging from Mauritius to Bangladesh. It is important to examine the domestic competitiveness with respect to the impact of alleged smuggling and dumping of cheap textiles and garments about which the private sector has made numerous complaints to the authorities.
- (d) Analyze investment policies (relating it to the Investment survey conducted by the World Bank) and relate the sub-sector to trade policies and regulatory policies that bear on the textiles and garments sub-sector. In particular, the section will explore the possibilities for partnership arrangements such as management contracts, sub-contracting, technical and marketing agreements with foreign firms and the prospects for foreign direct investment (equity participation) in the sector. The section will draw from a host of comparator countries that have been more successful in their ability to compete in the world market.
- (e) Identify the key constraints to the development of the sub-sector gathering relevant information available from existing studies and interviews with "representative firms" from both the private and the public sector and party affiliated firms. Such constraints

could include access to capital, lack of trained labor, infrastructure related constraints. Examine the impact of “quasi-privatization” of some public firms where the management responsibilities are passed to private firms and the degree of success or lack of success in improving firm’s performance.

- (f) Identify the main niches for Ethiopia in the main external markets and likely affects of the rescinding of the Multi Fibre Arrangement on Ethiopia’s exports of these products (as a non-member of the World Trade Organization) and the new opportunities provided by the AGOA and EBA.
- (g) Identify technical assistance needs for the textile and garments sub-sector.

Leather Products Sub-Sector

32. Describe the present status of Ethiopia’s leather products sub-sector based on an analysis of the sub-sector’s recent performance, structure, policies and governing regulations, constraints to development and technical assistance needs.

- (a) Update information found in the existing studies on production, consumption and exports, providing a breakdown of the product composition processed by traditional tanners into such products as footwear, mattresses, clothing, leather bags and belts.
- (b) Collect information on any collaborative work with foreign leather industries and the prospects for sub-contracting with leading leather manufacturers in Europe such as the Italian leather industry.⁸ Assess the factors that are impeding the expansion and improving the quality of the products, noting the losses due to animal disease and quantify to the extent feasible the assistance needed to address the issue.
- (c) Construct the value chain of the production and marketing process noting the different cost elements from factory costs to those that have to be incurred to put the products on board a ship or airline (fob basis).
- (d) Identify key technical assistance needs to increase output and to upgrade quality.

Cereals Sub-sector Issues and Policy Aspects

33. Describe the main developments in the cereal sub-sector (teff, wheat, maize, barley and sorghum) noting the performance of these crops with respect to output growth, land area covered, productivity, prices and the use of inputs (seeds and fertilizer).

- (a) Trace the main trends in the sub-sector, noting the economic importance of the sub-sector in output, consumption, employment and exports.

⁸ A study done by the International Trade Center in Geneva is said to exist on this aspect of the sub-sector.

- (b) Examine the reasons for the lack of an identifiable trend in productivity per hectare despite increased use of modern inputs and extension services.
- (c) Comment on the developments in the sector noting the output response to use of modern inputs and cost structure of production.
- (d) Trace any trends in output and employment growth for cereals given the use of fertilizer and seed use in different parts of the country and comment on the continued dependence of output variation on weather.
- (e) Identify technical assistance needs of the sub-sector to raise agricultural productivity with a package of inputs ranging from modern inputs to more traditional inputs such as roads, marketing channels and transport in general.

Coffee Sub-Sector

34. Evaluate the present status of Ethiopia's coffee sub-sector based on an analysis of the sub-sector's recent performance, structure, policies and regulations that affect the sector, constraints to development and technical assistance needs.

- (a) Evaluate the (1) the importance of the sub-sector to the economy in terms of its production, consumption, exports and their evolution since 1991; (2) the relative shares of forest, plantation and home garden coffee in production, consumption and exports; (3) any data relating to cost structures of coffee production at the "farm gate"; (4) costs broken down between farm gate and point of export (fob) based on any current studies that have been done.
- (b) Summarize the main developments in the coffee sector noting price movements, technological changes in of production, marketing and exports, using studies and public documents that are available.
- (c) Examine investment policies, trade policies (including export taxes) environmental policies and coffee sub-sector specific policies and regulations.
- (d) Identify the key constraints to expanding coffee production and exports and gather any information on the plans and programs under consideration to promote coffee exports in the major markets and specific niche markets such as organic coffee.
- (e) Assess the major institutional aspects of the coffee sub-sector noting in particular the work of the Coffee and Tea Authority and its contribution to increase production and raise quality of coffee exports.
- (f) Compare evolution of the prices received by Ethiopian coffee exports and the underlying changes in the incentive structure that affects the profitability of coffee production and exports (taking into account, export taxes, exchange rate changes and retention of a part of the exchange earnings). To the extent feasible, compare the

incentive structure for Ethiopia's competitors such as Guatemala, Costa Rica, and Papua New Guinea for organic coffee.

- (g) Comment on the domestic coffee marketing arrangements relating to the recent reforms.
- (h) Identify technical assistance needs of the sub-sector including laboratory facilities to certify the quality and the origin of the coffee.

Horticulture Sub-Sector

35. Describe the present status of Ethiopia's horticulture sub-sector based on an analysis of the sub-sector's recent performance, structure, policies and regulations that affect the sector, constraints to development and technical assistance needs.

- (a) Trace the main trends in the horticulture sub-sector including fresh vegetables, flowers grown in the open as well as green houses (the latter which have primarily been cut roses in the past).
- (b) Analyze (1) economic importance of the sub-sector (in terms of different products such as vegetables and flowers) to the economy in terms of its production, consumption, exports and their evolution since 1991; (2) the relative shares of open grown and green house grown flowers, as well as vegetables in production, consumption and exports; (3) data relating to cost structures of these products at the "farm gate"; (4) costs broken down between farm gate and point of export (fob) based on any current studies that have been done.
- (c) The external transport issue assumes importance for the sub-sector given that these products are perishable and air-transport would be the dominant mode to reach foreign markets. Consequently, analyze the data on needed facilities and costs bringing horticulture product exports to the border.
- (d) Examine investment policies, trade policies environmental policies and of the horticulture sub-sector specific policies and regulations.
- (e) Identify the key constraints to expanding horticulture production and exports and analyze the plans and programs under consideration to promote these exports in the major markets and specific niche markets for these products. Relate the findings to the section of the study on market access.
- (f) Analyze the major institutional aspects of the sub-sector noting in particular the opportunities for foreign participation to increase production and raise quality of exports from the sub-sector.
- (g) Identify technical assistance needs of the horticulture sub-sector including research and development efforts.

Sugar Sub-Sector Issues

36. Describe the status of Ethiopia's sugar sub-sector based on an analysis of the sub-sector's recent performance, structure in terms of public and private ownership, policies and regulations that affect the sector, constraints to development and technical assistance needs.

- (a) Evaluate the overall viability of the sugar sub-sector, which by some accounts is said to be internationally competitive. Assess (1) the importance of the sub-sector in the economy in terms of its production, consumption, exports and their evolution since 1991; (2) sugar production, consumption and export trends in relation to other agriculture exports; (3) any data relating to cost structures of these products at the "farm gate" (4) costs broken down between farm gate and point of export (fob) based on any current studies that have been done.
- (b) Assess the main developments in the sugar sub-sector noting price movements, technological changes in production, marketing and exports, using studies and public documents that are available.
- (c) Examine investment policies, trade policies environmental policies and of the sugar sub-sector specific policies and regulations.
- (d) Identify the key constraints to expanding sugar production and exports and gather any information on the plans and programs under consideration to promote these exports in the major markets.
- (e) Evaluate the major institutional aspects of the sub-sector noting in particular the opportunities for foreign participation to increase production and raise quality of exports from the sub-sector.
- (f) Compare evolution of the prices received by Ethiopian exporters compared to the main competitors and the prospects for increased exports to the European Union if its farm subsidies for beet sugar are reduced with the implementation of the Doha Agenda.
- (g) Comment on any technological improvements taking place and the role of the national extension services, if any, to help upgrade the quality of the products.
- (h) Identify technical assistance needs of sugar sub-sector including research and development efforts.

Pulses and Oilseeds

37. Describe the present status of Ethiopia's pulses and oil seeds based on an analysis of the sub-sectors' recent performance, structure in terms of public and private ownership, policies and regulations that affect the sub-sector, constraints to development and

technical assistance needs. Account for the increase in land area and exports of pulses and note the rapid expansion of oil seed exports.

- (a) Evaluate: (1) the importance of the sub-sectors economy in terms of its production, consumption, exports and their evolution since 1991; (2) production, consumption and exports in relation to other agriculture exports; (3) any data relating to cost structures of these products at the “farm gate”; (4) costs broken down between farm gate and point of export (fob) based on any current studies that have been done.
- (b) Assess the main developments in the oil seeds and pulses noting price movements, technological changes in of production, marketing and exports, using studies and public documents that are available. Note the prospects for marketing sesame seed organically and their labor intensive planting and harvesting characteristics. Similar situation exists for pulses, which are also not subject to major diseases.
- (c) Review investment policies, trade policies environmental policies and of the pulses and oil specific policies and regulations.
- (d) Identify the key constraints to production and exports and gather any information on the plans and programs under consideration to promote these exports in the major markets.
- (e) Assess major institutional aspects of the two sub-sectors noting in particular the opportunities for foreign participation to increase production and raise quality of exports from the sub-sector.
- (f) Comment on any technological improvements taking place and the role of the national extension services, if any, to help upgrade the quality of these products.
- (g) Identify technical assistance needs of pulses and oils seeds sub-sectors including research and development efforts.

Tourism Sector Issues and Prospects

38. Describe the present status of Ethiopia’s tourism sub-sector based on an analysis of the sub-sector’s recent performance, structure, policies and regulations, constraints to development and technical assistance needs.

- (a) Examine statistics relating to tourism, including (1) the importance of tourism; (2) tourist arrivals by country and province; (3) expenditures by sector, e.g., hotels and restaurants, crafts and shopping, leisure, tours; (4) overnight stays, by province; (5) employment, by province; (6) salary, by job type and number of salaried and non-salaried jobs; (7) foreign direct investment in the sector. (To the extent feasible and such statistics exist).

- (b) Develop a profiles of tourists by different tourism “products” whether they are attracted by the rich cultural history, scenic beauty, attractive climate, friendly people, handicrafts based on any surveys or studies already available.
- (c) Assess investment policies, trade policies, environmental issues, and tourism-specific policies and regulations. In particular any concessions given to the sector in terms of access to credit, import of vehicles for tourism, access to both domestic and foreign investors for both tours and infrastructure such as hotels and lodges.
- (d) Assess impact of training centers and curriculum, and other support institutions for tourism.
- (e) Identify the key constraints to the development of tourism sub-sector, and gathering relevant information and data on those constraints. This should include both international and domestic transport, access to the use of credit cards by tourists and tourist facilities in general. Identify opportunities to tap into the tourist traffic to Kenya and neighboring countries.

The DTIS Process

Creation of a The National Steering Committee and the Technical Group

39. To oversee the DTIS and to provide continuous support and advice during the process, two committees have been created. The Minister of Trade and Industry, the Honorable Girma Birru will chair the National Steering Committee of the DTIS. Mr. Gashaw Debebe, head of the Foreign Trade Department will chair the Technical Group. Mr. Debebe will be a member of the Steering Committee to provide a close link between the two committees.

(i) The National Steering Committee. It is chaired by the Minister of Trade and Industry and comprising among others, officials of the Ministry of Finance and Development who were responsible for the preparation of the PRSP, and others from the Government, a few key bilateral development partners, the heads of the three IF agencies represented in Addis Ababa, the head of the Ethiopian Chamber of Commerce and members of Civil Society.

(ii) A Technical Group (TG) has been constituted with which the DTIS team can interact on a continuous basis. It will provide technical advice to the NSC and the DTIS team on trade and trade related technical assistance. The head of the Technical Group is the Head of the Ministry of the Foreign Trade Department (and the Focal point for the IF), who will be an ex-officio member of the NSC. Other members of the Technical Group include those directly involved in the preparation of recently completed PRSP, technical expertise from relevant ministries and agencies and staff from major sectors involved in foreign trade.

Time Table

40. The main mission for the DTIS will begin on November 7, 2002. On the same date, a Launch workshop will help to acquaint all the stakeholders of the thrust and topics covered in the DTIS. It will also provide an opportunity for the main stakeholders to provide comments on the TOR for the whole study.

The first draft of the DTIS will be completed by January 31, 2003. A Second Workshop to discuss the draft of the DTIS will be held on March 24, 2003 and the report will be finalized by April 15, 2003.

Study Team

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Abebe Teferi	Tourism sub-sector
Amdissa Teshome	Pulses and Oilseeds

Appendix A

TABLE 1: ETHIOPIA: SELECTED MACROECONOMIC INDICATORS

	1994	1995	1996	1997	1998	1999	2000
Annual real GDP growth (%)	1.6	6.2	10.6	5.2	-1.4	6.2	4.6
GDP level (1990=100)	160.3	180.7	182.4	189.2	208.5	211.9	214.3
Average annual inflation, CPI (%)	1.2	13.4	0.9	-6.4	3.6	3.9	4.2
Money supply growth (%)	15.3	19.8	11.6	3.4	12.7	5.9	14.0
Gross domestic investment (million \$)	842.7	947.1	1011.8	1085.1	1120.9	1046.8	970.8
Budget deficit, as % of GDP	-1.6	2.1	3.6	4.4	2.3	-3.0	-8.2
Tax revenues, as % of GDP	13.9	17.4	18.4	18.2	18.1	17.9	18.3
Current account (incl. official transfers), as % of GDP	-1.7	3.3	1.1	-3.0	-1.6	-7.9	-5.3
Gross foreign reserves (import cover)	5.6	6.0	7.7	4.4	3.0	2.8	2.1
Exchange rate, birr/US\$ (annual average)	5.1	5.9	6.3	6.5	6.9	7.5	8.2

Source: World Bank and IMF.

TABLE 2: TRADE STATISTICS 1994-2001

	1993	1994	1995	1996	1997	1998	1999	2000
Exports of goods (million \$)	222.4	279.6	453.6	411.8	598.7	602.1	484.2	485.9
Exports of nonfactor services (million \$)	284.7	276.1	330.1	372.6	412.1	435.2	429.6	497.9
Imports of goods (million \$)	1,051.8	914.6	1,063.0	1,144.3	1,309.4	1,356.6	1,557.9	1,610.7
Imports of nonfactor services (million \$)	211.4	185.8	209.0	234.1	279.6	296.4	315.4	349.1
Exports of goods (% change)		25.7	62.2	-9.2	45.4	0.6	-19.6	0.4
Imports of goods (% change)		-13.0	16.2	7.6	14.4	3.6	14.8	3.4
Exports (% GDP)	3.6	5.0	7.9	6.9	9.4	9.2	7.5	7.6
Imports (% GDP)	16.8	16.4	18.4	19.1	20.5	20.8	24.2	25.3
Trade balance (million \$)	-829.4	-635.0	-609.4	-732.5	-710.7	-754.5	-1,073.7	-1,124.8

Source: IMF.

Appendix B

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