Addis Ababa University
College of Development Studies
Center for Regional and Local Development Studies

Export Diversification and International Competitiveness of Ethiopia: A decadal Performance, Challenges and Opportunities

By

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June, 2024
Addis Ababa, Ethiopia

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A Dissertation Submitted to Addis Ababa University, College of Development Studies, Center for Regional and Local Development Studies in the Partial Fulfilment of the Requirements for the Award of Doctor of Philosophy in Regional and Local Development Studies

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Addis Ababa, Ethiopia

DECLARATION

I, Kassahun Gofe Balami, declare that this Ph.D. dissertation entitled “Export Diversification and International Competitiveness of Ethiopia: A decadal Performance, Challenges and Opportunities” is submitted to Addis Ababa University for the award of Doctor of Philosophy in Regional and Local Development Studies. This dissertation is entirely my original work and has not been submitted for any other degree or qualification at any other university. I confirm that all sources of information used in this dissertation have been duly acknowledged and referenced. I take full responsibility for the content of this dissertation and assert that it does not infringe upon the intellectual property rights of others.

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ABSTRACT

The research topic ‘Export Diversification and International Competitiveness of Ethiopia: A decadal Performance, Challenges and Opportunities’ is very pertinent and appropriate given its significant impact on the economic development of the nation. This study explores the competitiveness and diversification of Ethiopian exports, delving into performances, challenges and opportunities within the export sector. Informed by dewyan pragmatism a mixed approch has been applied. Data were collected both from primary and secondary sources. Data sources have been government and non government institutions that have relevant information pertinent to this study. Primary data were collected through questioneries, key informant interview and focus group discussions. Content analysis was used to analyze qualitative data; while Herfindahl-Hirschman Index and Relative Trade Balance were applied to assess export diversification and its competitiveness respectively. Accordingly, explanatory and descriptive methods of data analysis were applied. The study found that export trends over the study period reveals positive growth in total export values;however, performances vary across different merchandise categories. Efforts to diversify the export base have resulted in the introduction of new commodities but lack significant value addition and productivity enhancements. While the number of exportable items has grown, leading to a moderately diversified portfolio of exports and destinations, specific sectors differ in destination diversification. The findings also highlight significant opportunities for Ethiopia's exports contingent on the government's commitment to crucial institutional and policy reforms at the macroeconomic and industry levels. However, challenges arise due to heavy reliance on declining primary commodity prices, limited diversification, deficiencies in skilled labor, technology, and market access hindering progress. The study concludes that importance of stakeholder collaboration to enhance Ethiopia's export competitiveness through policy reforms, innovation, improved market access, and ethical business practices need to be emphsised.. By leveraging these strategies, Ethiopia can unlock its export potential, drive sustainable economic growth, and navigate the complexities of the global trade landscape effectively.

Keywords: Export Performance, Export opportunities and challenges, Merchandize Export, Export Diversification, Export Competitiveness, Herfindahl-Hirschman Index (HHI), Relative Trade Balance, Ethiopia

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LIST OF ABBREVATIONS

AGOA	African Growth and Opportunity Act
AfCFTA	The African Continental Free Trade Area
COMESA	Common Market for Eastern and Southern Africa
CSA	Central Statistics Agency
EBA	Everything but Arms
ECC	Ethiopian Custom Commission
ECTA	Ethiopian Coffee and Tea Authority
ECX	Ethiopian Commodity Exchange
EMP	Export Market Penetration
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FDRE	Federal Democratic Republic of Ethiopia
FGD	Focus Group Discussion
FOREX	Foreign Currency Exchange
FTA	Free Trade Area
GDP	Gross Domestic Product
GSP	Generalized System of Preference
GTP	Growth and Transformation Plan
HHI	Herfindahl-Hirschman Index
HS	Harmonized System
ITC	International Trade Centre
LDC	Low Developing Countries
LIC	Low Income Countries
MOA	Ministry of Agriculture
MOI	Ministry of Industry
MOTRI	Ministry of Trade and Regional Integration
NA	Not Available
NBE	National Bank of Ethiopia
NGO	Non-Governmental Organization
RTB	Relative Trade Balance
SME	Small and Medium Enterprises
SSA	Sub- Saharan Africa
SPS	Sanitary and Phytosanitary
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Conference on Trade and Development
USA	United States of America
USD	United States Dollar
WITS	World integrated Trade Solutions
WTO	World Trade Organization

CHAPTER ONE: INTRODUCTION

This chapter begins with a discussion about the background of the research, which is followed by a statement of the problem, research question, and objectives, and then the scope and contributions of the research.

1.1. Background

Many studies (Eravwoke and Imide, 2013; Farole et al., 2010) assert that international trade is an engine of growth in developing countries. In a similar manner, a significant number of empirical studies show a strong correlation between a country's trade share and its economic growth performance (Dollar & Kraay, 2004; Romalis, 2007; Rahman & Mustofa, 2021; Ahmad, Aslam, and Chani ,2020). The East Asian experience of export-led growth over the past three decades provides powerful real-world evidence of the potential for trade to be an engine of growth and poverty reduction. What is more, the fact that globalization has become an undisputed reality has led countries to search for opportunities abroad to survive. Increasing globalization has therefore made exporting an important activity for many developing countries.

Export increases are seen as an important source of capital formation by financing imports of capital and advanced technologies. Export growth also leads to a better allocation of resources through foreign market competition. It allows for scale economies and larger capacity exploitation by increasing the opportunity to operate in greater international markets (Benelli, 2020). Export-led growth has been perceived as one of the most promising pathways to do so. The experience of several waves of Asian economies that achieved high and sustained growth while pursuing a strong export orientation provided the empirical backdrop for this approach (Ketel's, 2010). In this way, exports become the target and ultimate goal of economic policy.

Moreover, the new conventional wisdom in the development literature is that poor developing countries should transform their production and export structures to achieve sustained growth and poverty reduction (UNIDO, 2016; Weiss, 2017). In the same manner, the Sustainable Development Goals (SDGs), the Istanbul Programme of Action for the Least Developed Countries (LDCs), and the African Union's Agenda 2063 emphasize the importance of export diversification and structural transformation in achieving national development objectives (United Nations, 2015; AUC, 2015).

Therefore, export growth is viewed as an important component of development strategies, and especially developing countries spend considerable attention and resources to increase their exports. However, not all countries have benefited equally from exports. For example, Farole and et al. (2010) assert that "despite much effort to use trade policy to catalyze exports, many developing countries have failed to achieve successful, sustainable exports and economic growth." The authors further mentioned that "even with the benefit of preferential market access, many exporters from developing countries face a broad and diverse set of constraints that limit their potential to compete in export markets" (Ibid.).

Government policy to achieve export-led growth is then essentially about finding ways to increase the ability to sell domestically produced goods and services on global markets. This ability to export is often understood as "export competitiveness" (Ketels, 2010). The term "competitiveness" is widely used and is seemingly intuitive. But, in fact, it is conceptually vague and open to multiple interpretations. Many economists view competitiveness as something experienced only at the firm level and dismiss notions of "national competitiveness" (Krugman, 1996), while others believe the lack of attention to broader national-level notions of competitiveness has been an obvious failure of economic research and policy (Porter, 1990). According to Keteles, "export competitiveness", refers to "a country's ability to sell goods in global markets" (2010:5). Export competitiveness is significant for exports because it can positively influence export performance, including financial and market performance, a nation's sustainable development and foreign trade, and advantages in emerging markets. Nevertheless, Firm-level competitiveness and national competitiveness are interdependent. Competitive firms contribute to national economic performance, while a supportive national environment enables firms to thrive internationally (OECD, 2018; World Economic Forum, 2020; World Bank, 2021 and Lin 2012).

Thus, in the wake of acute international competition, it was extremely difficult for a developing country to gain entry into new overseas markets unless it made planned efforts to compete. Assessing export competitiveness starts with defining the objectives of an export strategy and understanding the relative outcomes. The most common outcome measures include the level (volume, share) and growth of exports; the diversification of exports; and the quality or sophistication of exports.

Of course, for exports to increase and perform well, competitiveness *alone* is not sufficient. In addition, it has been argued that, for poor countries to grow rich, it is important for them to modify

the composition of their exports. Recent literature has found that countries appear to diversify in terms of production and exports as they grow. Export diversification refers to deliberate policies intended to change the shares of commodities in the existing export mix, introduce new products in the export portfolio, and/or break into new geographical markets.

In most of the studies carried out, for example (Raja et al., nd), reference is made to the "concentration phenomenon," which basically consists of commodity and market concentration and is believed to be the major contributor to instability in export revenue. It is argued that countries with commodity concentrations are adversely affected by volatility in market prices through swings in foreign exchange revenues. In this regard, it has commonly been suggested that a broadening of the export base through a more diversified national trade portfolio can help maintain stability in export receipts, thus fostering long-term economic growth.

Similarly, the Food and Agriculture Organization of the United Nations (FAO, 2017) maintains that, due to the absence of export diversification in developing countries, declines and fluctuations in export earnings have negatively influenced income, investment, and employment. With diversification, investment risks are spread over a broader portfolio of economic sectors, which eventually increases income (Acemoglu and Zilibotti, 1997). Romer (1990) believes that diversification can be seen as an input factor that influences improving the efficiency of other factors of production. Moreover, diversification helps countries hedge against adverse trade shocks by stabilizing export revenues. Besides, export diversification allows a government to achieve some of its macroeconomic objectives, namely sustainable economic growth, a satisfactory balance of payments situation, employment, and redistribution of income (Hwang, 2006).

Export diversification is vital for developing countries as it enhances economic stability and growth by reducing reliance on a narrow set of exports and mitigating risks from price volatility and global market fluctuations (Al-Marhubi, 2000; Hesse, 2008). Diversified exports decrease vulnerability to external shocks, fostering stability, and promoting higher value-added products, which boost income and employment (Lederman & Maloney, 2003; Agosin, 2007). During the 2008-2009 financial crisis, countries with diverse export portfolios were less affected (Haddad, Lim, Pancaro, & Saborowski, 2013; IMF, 2014). Diversification supports industrial development and structural transformation, enhancing productivity and competitiveness (Hausmann, Hwang, & Rodrik, 2007; UNCTAD, 2019), while increasing foreign exchange earnings and attracting foreign direct investment (Herzer & Nowak-Lehmann, 2006; Basu & Das, 2011).

Generally speaking, with the emergence of globalization and liberalization, barriers to cross-border business are diminishing. Globalization, a trend toward a more integrated and global economic system is a challenge that countries have to learn how to live with, manage, and take advantage of since national economies are becoming more interdependent and integrated. In addition, today's theories of economic development emphasize improving export performance as a vital component of international competitiveness and rapid growth and development. Cadot, Carrère, and Strauss-Kahn (2011) demonstrate that countries with diversified export portfolios experience more stable and sustained economic growth. Participation in global value chains (GVCs) has also emerged as a significant factor, allowing countries to specialize in specific production stages, benefiting from technology transfer and increased efficiency (Taglioni & Winkler, 2016). Baldwin and Lopez-Gonzalez (2015) argue that GVCs are powerful engines for economic growth by facilitating access to larger markets and advanced technologies, which foster productivity and competitiveness. Hence, countries must focus on improving their export performance and integrating into GVCs to leverage these opportunities for sustained economic development.

When we come to addressing the Ethiopian export sector's performance, therefore, we focus on how Ethiopian exports are functioning and meeting the intended objectives. Ethiopia is a developing Horn African country going through political, economic, social, and technological transitions. As a growing economy, it is required to accommodate fundamental changes in the global economy to boost competitiveness.

Exports in Ethiopia have played a crucial role in generating employment opportunities and acquiring essential foreign exchange. Nevertheless, the country faces a risk of price fluctuations due to its heavy reliance on unprocessed and undifferentiated agricultural products for exports (World Bank, 2014). Despite benefiting in time of rising prices, decline in key commodity prices will result in poor export performance. These vulnerabilities emphasize the need to enhance competitiveness by focusing on diversification and promoting exports with higher value added.

The hindrance to potential lies not only in the "what" is being exported, but also in the "how"; in a sense, improving the quality of current commodity exports through value addition. Despite having a revealed comparative advantage in certain products, there has been limited progress in upgrading or branding these goods to increase their value over time. Ethiopia should focus on competing based on the quality of its existing commodity exports. By doing so, the country can

reduce its vulnerability to fluctuating international market and support the gradual transition towards agro-processing and light manufacturing in its production and export sectors.

In order to achieve sustainable economic growth and development, it is crucial to address several challenges that hinder the expansion of Ethiopia's export sector. Unlike in East Asia, where booming exports have played a significant role in shifting economic activity and workers from low productivity agriculture to higher-productivity manufacturing, Ethiopia's export sector is currently too small to contribute to structural transformation. This is evident in the country's low ratio of merchandise exports to GDP, which is the lowest in the world. Therefore, addressing these challenges is essential for Ethiopia to enhance its export sector and contribute to structural change, ultimately fostering economic growth and development. Successful exports not only result in dynamic efficiency gains by taking advantage of economies of scale and adopting foreign technologies and business practices, but also by facing international competition. Furthermore, a more competitive real exchange rate could facilitate export promotion.

Indeed, the research topic 'Export Diversification and International Competitiveness of Ethiopia: Exploring Challenges and Opportunities' is very pertinent and appropriate given its significant impact on the economic development of the nation. Ethiopia has the potential to be a major player in the global market thanks to its abundant agricultural resources and expanding industrial base. Its present struggles with export diversification, however, prevent it from utilizing all of its trade potential. Ethiopia must examine the opportunities and difficulties posed by export diversification if it is to become more economically resilient, more globally competitive, and experience sustained progress. The study intends to shed light on the variables impacting export diversification, pinpoint possible export destinations, and create plans of action to deal with the difficulties faced by Ethiopian.

Due to the aforementioned background, the area of export performance is attracting both academic and managerial attention at an increasing pace; hence, it is pertinent to study the Ethiopian export sector's performance based on these backdrops.

1.2. Statement of the Problem

Ethiopia's export sector has vastly expanded throughout the last decade (2012–2021). The data from the Ministry of Trade and Regional Integration (MOTRI) and the Ethiopian Customs Commission (ECC) show that despite the modest growth of Ethiopia's total exports, which

averaged 7.1% in the study period, the country's export sector remains underdeveloped compared to Sub-Saharan Africa (SSA). Ethiopia's trade-to-GDP ratio stands at 24.3%, while the average for sub-Saharan Africa (SSA) is higher at 45.9% (WB, 2021). Total average earnings from merchandize exports were USD 2.7 billion. The earnings were from a few primary commodity exports. During the study period, Ethiopia's trade deficit has been rising at an average rate of 15.41%, and the value of the deficit reached USD -10.09 billion in 2021. Furthermore, the structure of Ethiopia's exports is built on a narrow base of nonmanufacturing and agricultural exports. The growth boom was accompanied by an increase in exports of a small variety of agricultural goods and services.

As one clearly understands from the aforementioned facts, export growth has been insufficient to finance the country's balance of payments needs. Furthermore, although the country has managed to introduce some new products to its export basket in the last decade, these have not significantly altered its export composition. In other words, a high export concentration and heavy dependence on primary commodity exports are very overriding features of export composition in the Ethiopian economy.

On the other hand, the pace and success of Ethiopia's structural transformation will depend on its ability to sustainably diversify into a more competitive tradable sector. Nevertheless, large-scale public investment projects have absorbed a significant share of scarce forex, while the forex revenue anticipated from the projects did not materialize in time. High demand for imports in the context of limited export growth resulted in large current account deficits and severe forex shortages.

What is more, the Ethiopian export sector structure still remains undiversified as it depends on some primary agriculture products; including coffee, oilseeds, fruits and vegetables, pulses, and live animals, with little manufacturing sector commodities such as garments and textiles, which have trivial measurements in the export efficiency of the country. As a result, the reliance of export revenue generation on only a few commodities has made country export performance highly unstable, which elevated two critical strategies the country had working to achieve the efficiency of the sector: (I) Ethiopia lacks the export diversification needed to raise growth through a broad base of production technologies; this spreads risk and reduces aggregate output volatility; and (II) primary products are vulnerable to global price volatility and weather-related shocks, which show foreign earnings fluctuation at different times (IMF, 2018). These primary products are sensitive to world price fluctuations, which adversely affect the stability of export

earnings. IMF data confirms this idea: export revenue stagnated as significant merchandise export volume growth (7.7 percent) was offset by sharp declines in Ethiopia's export prices (16 percent for coffee, 33 percent for oil seeds, and 6 percent for gold) (IMF, 2018).

Of course, the incumbent government has put emphasis on improving export performance. It has also formulated different strategies and undertaken various policy changes. For example, the country's development strategy has the objectives of promoting rapid economic growth with a stable economic atmosphere and enhancing the integration of the country's economy with a global economy. With the export promotion strategy, Ethiopia has tried to increase export earnings by exporting more in terms of volume and number of commodities. Even though Ethiopia adopted various policies aiming at diversification within the framework of an export-led growth strategy, the outcomes are still inadequate compared to the country's potential and expectations (MOTRI, 2021).

However, though various efforts are made, the export performance is still low. First, the prevailing high dependence on primary exports makes the country more exposed to external adversities, as argued in a number of literatures: instability and volatility of foreign exchange earnings in the short run and erratic deterioration of terms of trade in the long run. This exogenous factor has been clearly apparent in Ethiopia's case, where international prices of primary commodities (such as coffee and oilseeds) were highly volatile and adversely affected export revenues. Second, traditional exports have a low level of backward and forward linkages with the rest of the economy as they are exported without value-added activities. Therefore, export diversification and competitiveness would stabilize export proceeds and speed up export growth, which in turn could instigate further economic growth for the country.

Given the critical role exports play in the economy, export performance is one of the most widely researched areas. Nevertheless, it is still one of the least understood and most contentious areas of international trade. It is actually the subject of a lack of consensus and synthesis concerning its conceptualization, operationalization, methodology, determinants, and performance measures. This fact is also true in the Ethiopian context.

Due to the pertinence of the subject under study, many researchers have been conducting studies on the sector for several years in Ethiopia. However, very few of them focused on competitiveness and diversification issues. What is more, most of them have given barely any attention to macro- and micro-level analysis. They mainly focused on the micro (firm level). The following are some

of the research studies that can be mentioned: "Export Performance and Determinants in Ethiopia" (Sisay, 2010). In this study, analysis of factors affecting Ethiopia's export supply during the period 1981–2004 has been made using co - integration analysis. Sisay focused on factors other than diversification and competitiveness. Shiferaw (2018) investigated Ethiopian export efficiency by using a stochastic frontier analysis model with panel data to estimate if countries operate at the frontier with their major trading partners. Alekaw Kebede (2016), in his study Determinants and Potentials of Foreign Trade in Ethiopia, provided a theoretical justification for using the gravity model to analyze bilateral trade flows. Mesfin Lemma and Biniam Ali (2018) in their study titled "Assessment of Challenges and Performances of the Ethiopian Export Market," focused on the national level but is limited to only three years (2014–2017). Accordingly, until now, there have been very few studies focused on the efficiency of Ethiopia's export sector. Literature regarding the issue is scanty in Ethiopia.

As deduced from the discussion so far, it is apparent that there is a gap in research in the study area and that the literature is scanty. Thus, the need for a study on the performance of Ethiopia's export sector is paramount.

This study, therefore, intends to examine Ethiopian export performance using the most important variables in export performance: export diversification and competitiveness. By the same token, the study investigates factors that constrained Ethiopia's export competitiveness and diversification endeavours.

1.3. Research Objectives

1.3.1. General objectives

The overall objective of this research is to assess the Ethiopian export sector's competitiveness and diversification and explore its challenges and opportunities.

1.3.2. Specific Objectives

1. To assess Ethiopia's export sector competitiveness;
2. To assess the export diversification of the Ethiopian export sector;
3. To explore the challenges of the Ethiopian export sector's competitiveness and diversification ;
4. To describe the possible opportunities for Ethiopian export sector competitiveness and diversification

1.4. Research Questions

1. To what extent are Ethiopian exports competitive?
2. To what extent are Ethiopia's exports diversified?
3. What are the challenges that hinder Ethiopia's exports from being competitive and diversified at macro and meso level?
4. What are the opportunities that could contribute to increasing Ethiopia's export competitiveness and diversification?

1.5. Significance of the Research

As a consequence of the growing importance of exporting activity, export marketing has become a priority for academics, practitioners, and government policymakers. It is expected that the study will contribute to their knowledge in the following ways: As foreign markets tend to be more diverse than domestic ones and, in many instances, more hostile, a clear understanding of the export performance construct becomes particularly important. It is of vital interest to three major groups: public policymakers, business managers, and marketing researchers. From the point of view of public policymakers, a better understanding of export performance is important because it allows for the accumulation of foreign exchange reserves, increased employment levels, improved productivity, and enhanced prosperity. Research on export performance is of interest to managers because it is considered a tool to boost corporate growth, strengthen the competitive edge, and ensure company survival in a highly competitive marketplace.

Export is a serious issue in the foreign trade system in today's global market structure, with high focus from the government, exporter/participator, planners, policymakers, academicians, and researchers. For this reason, all of these bodies had been taking various actions to alleviate the concern, while the country's export sector performance had been called into question from time to time. Hitherto, many studies had been conducted on the Ethiopian export sector, but none of them focused on sector efficiency measurement. Therefore, this study expects to help:

- researcher as a reference for future studies on export efficiency;
- Policy makers as key policy indicators in international trade policy; and
- planners as input for export sector strategic formulation, and exporters

1.6. Scope of the Research

This research will be delimited in terms of target variables and the period to be covered. Regarding the target variables, it focuses only on major exportable items. It is not exhaustive enough to cover all commodities. What is more, it only focuses on diversification and competitiveness and does not investigate all factors related to export performance. Besides, the twelve-year data, from 2010/11 to 2021/22, is studied.

1.7. Limitations of the Study

The results of this study should be interpreted with consideration for its limitations. First, there is a large reporting gap between different institutions. Hence, the quality of the data series available may have influenced the findings. Incomplete or inaccurate data could potentially introduce bias or reduce the reliability of the results. Additionally, the result of the study may not show the recent developments for the research covers twelve years, from 2010/11 – 2021/22. What is more, it does not investigate all exportable items including services. Hence, it may lack comprehensiveness.

As the study uses time series data, it is important to recognize the inherent limitations associated with this type of analysis. Time series analysis is restricted to time-dependent data and is not suitable for cross-sectional or purely categorical data. This constraint limits the scope of the analysis. Furthermore, the results of time series analysis may not always be generalizable, particularly when the analysis is based on a single, isolated dataset or period.

Non-independence of data points is another limitation inherent in time series analysis. Unlike other types of statistical analysis, time series data points are not always independent, which can introduce bias or error. Additionally, time series analysis often requires a large number of data points for reliable results, and such data may not always be easily accessible or available.

These limitations should be carefully considered when interpreting the study's findings and conclusions. While the study provides valuable insights, acknowledging these constraints is crucial for a balanced understanding of its implications.

1. 8. Structure of the Study

The study is organized into seven interrelated and logically sequenced chapters. Chapter one is the introductory part that gives the highlights of the research by summarizing what the overall

research is about. It includes the research problems and the research questions that form the basis of this work, the justification, the objectives, and the research route. In Chapter 2, a review of related literature has been conducted on the main concepts of the research in order to acquaint readers with the historical and conceptual background of the issue. The institutional and legal environment of the export sector is also discussed in Chapter 2. In chapter three, an attempt is made to present the systematic approach guiding the research journey and the methodological framework underpinning the study. The first research objective, issues about export diversification and competitiveness, are presented and analysed in Chapter 4. Accordingly, different qualitative data are analysed and interpreted. Similarly, chapter five focuses on opportunities and challenges regarding diversification and challenges to export diversification and competitiveness. In the chapter, both sectoral and macro-level opportunities and challenges are identified and analysed. The last chapter draws conclusions and presents policy implications.

CHAPTER TWO: LITERATURE REVIEW

This chapter reviews and discuss various sources pertinent to the subject matter. Accordingly books, articles, thesis and dissertations were consulted thoroughly. The review is organized based on the main themes in the dissertation.

2.1. Introduction

Studies on export performance have reached inconsistent and even contradictory conclusions. Such conflicting results may be due, among other possible reasons, to differences in conceptualization, operationalization, and measurement of the export performance construct. There is a substantial body of research on export performance; however, there are problems with the wide range of export performance determinants used in studies as well as the measures used. The number of studies published over the past decades on the subject of export performance is testimony to the importance of the issue in the literature.

However, despite considerable research, the evidence on the factors affecting export performance is largely fragmented and often contradictory. The main reason for this appears to be the lack of agreement on how to conceptualize and operationalize export performance, a problem that results in a variety of, mostly ad hoc, measurement schemes emphasizing different performance dimensions. In this context, several studies have recently appeared in the literature to investigate and develop multi-item measures of export performance. This appears to indicate that export performance is a multifaceted concept and that the use of single-item measures is insufficient for reliable assessment. Despite the attention that export performance has attracted in the literature, it has been claimed that it has remained one of the least understood areas of international trade. This chapter provides a comprehensive review of the theoretical basis upon which the conceptual framework is developed.

2.2. Concepts and Theories of Competitiveness

2.2.1. Definitions

The term "competitiveness" is one of the most commonly used concepts in economics, though it is not precise enough. There is no generally accepted definition of "competitiveness," and researchers use the term differently and in different contexts. The term was coined in the 1970s in an attempt to determine the degree of competitiveness between the rival economies (Wzitek-Kubiak in Siudek, 2014). Although research on competitiveness has been popular for half a century, in recent times it appears to be flourishing as many economic phenomena are compared according to whether they are competitive or non-competitive. Despite the fact that

competitiveness is a ubiquitous term in economic research, there are still troubles with understanding its meaning as well as its measurement.

Ekmeová (2016) argues that "national competitiveness can be understood as a country's capability to establish itself in foreign markets due to price or other factors, but also [in terms of] an economy that is capable of achieving a high level of real earnings, a low unemployment rate, and long-term sustainable growth." Bris states that "achieving higher competitiveness is, therefore, a way towards progress that does not result in winners and losers; when two countries compete, both are better off" (Bris, 2018). In their paper, Cellini & Soci (2002) list many definitions of the term "competitiveness," claiming the concept to be ambiguous. This being said, competitiveness cannot be easily measured and quantitatively evaluated. One accepted precise definition of competitiveness comes from Balassa (Cellini & Soci, 2002): "We can say that a country has become more or less competitive if, as a result of cost-and-price developments of other factors, its ability to sell in foreign and domestic markets has improved or deteriorated." In this context, Nevima (2014) pointed to the fact that "competitiveness is a multi-layered and thus ambiguous term." The concept can be assessed according to a myriad of single- and multi-factor competitiveness indicators that contribute to quantification as well as analyses of internal and external competitiveness determinants.

Other scholars in the field also defined competitiveness from their perspectives. For instance, according to Porter et al. (2008), "competitiveness is a country's share of world markets for its products. Barker (1998) complemented this definition as he defined competitiveness as the degree to which a given country can, under free and fair market conditions, produce goods or services meeting the test of international markets while simultaneously maintaining and expanding the real incomes of its population over the longer term. Similarly, national competitiveness is considered a country's ability to create, produce, distribute, and/or service products in international trade while earning rising returns on its resources (Scott, 1985).

With this background in mind, let us discuss the main theme of this research, export competitiveness (EC). Export competitiveness has been widely recognized as one of the mediums for achieving global competitiveness (Dhiman et al., 2020). EC can be defined as the capability to produce and sell goods and services at the required location at competitive prices when compared to other suppliers (Sharples and Milham, 1990). A review of the literature made by the researcher finds several concepts and theories of competitiveness. Researchers have evaluated competitiveness at various levels. They range from those considering a country's competitiveness

from the macro-perspective to those concentrating on firms, i.e., looking at competitiveness in micro-economic terms. For example, Pillania (2006) and Srivastava (2006) analyzed competitiveness at the regional level. The firm-level study was conducted by Pillania (2007), while KoC (2009) made an analysis at the country-level. The joint study by Caglayan and Demir (2014) focused on the industry level.

2.2.2. Classical Concepts and Theories

***Invisible hand*:** Adam Smith argues that each party involved in international free trade can gain benefits by specializing in the production of goods in which it holds an absolute advantage. Hence, he proposed to let every country export those goods it produces at the lowest cost and import those goods it produces at the highest cost (Rothschild, 1994).

Comparative Advantage: David Ricardo asserts that a country can benefit from foreign trade even if it lacks any absolute advantage over its trade partners in the goods' production. It only needs to have a relative advantage in any goods in order to sell them abroad **(**Kowalski, 2011).

Heckscher-Ohlin trade theory (natural resource abundance theory): A country will specialize in producing and exporting those commodities that require relatively intensive use of locally abundant factors of production. This means that relatively capital-abundant countries will export capital-intensive commodities, while relatively labor-abundant countries will export labor-intensive commodities (Edward, 1995). Criticisms of this model focus on its assumptions of factor immobility and identical technologies across countries, which do not hold true in a globalized world characterized by significant technological disparities and capital mobility (Krugman, 1986).

2.2.3. Neoclassical and Institutional Concepts and Theories

***Theory of effective (workable) competition (John M. Clark)*:** Competitive advantage is driven by innovations introduced by the company. Innovations motivate firms to compete aggressively in order to obtain a competitive advantage, which in turn leads to technological progress and economic growth at the macro-level (Aranoff, 1991). The theory of workable competition remains relevant today as it reflects the real-world market conditions where firms often hold significant market power but still compete vigorously. Modern markets, such as the tech industry, exhibit characteristics of workable competition where few large firms dominate but competition drives innovation and efficiency. For instance, companies like Apple and Samsung, while holding

considerable market power, continuously innovate and improve their products, benefiting consumers.

John M. Clark's concept of workable competition, while addressing the impracticalities of perfect competition, faces several critiques. Critics argue that the term "workable" lacks precision and mathematical rigor, making it difficult to apply uniformly across different industries and markets. The subjective nature of what constitutes workable competition can pose challenges in empirical measurement and policy implementation. Furthermore, some critics contend that allowing for some degree of market power could potentially justify monopolistic practices that harm consumer welfare, as even small market power can lead to inefficiencies (Demsetz, 1968; Shepherd, 1997).

Theory of marketing behavior (Wroe Alderson)*:* this theory postulates that there are six potential sources of a firm's competitive advantage in the market: market segmentation, a way of communication (i.e., promotion and advertising), reaching out to the customers (choice of distribution channel), product development, process improvement, and product innovations (Smalley and John, 1995). Alderson's theory is highly relevant in today's rapidly changing markets, where consumer preferences and technological advancements require firms to be highly adaptive. The proliferation of digital marketing and data analytics allows firms to respond swiftly to market changes and consumer behavior, embodying Alderson's views on the dynamic nature of marketing behavior. However, some argue that Alderson's focus on adaptation overlooks structural constraints, such as market entry barriers and regulatory frameworks, which can limit firms' ability to respond to market changes. The theory's complexity, integrating psychology, sociology, and economics, makes it challenging to operationalize and apply in empirical research. Additionally, critics question the predictive power of Alderson's theory, suggesting it may better explain past behaviors than forecast future market dynamics (Hunt, 1976; Sheth & Garrett, 1986).

Institutional economics streams (Friedrich List, Max Weber, James Buchanan): In addition to economic factors, one's competitiveness is affected by social institutions such as public authorities, trade unions, financial institutions, socio-political organizations, ownership and organizational structures, and mental habits, rules, and codes of conduct (William, J. Novak, 2020).

Friedrich List emphasized the role of national policies and institutions in promoting economic development. He argued for protective tariffs and government intervention to support infant industries until they become competitive internationally (List, 1841). List's ideas have been

influential in the economic policies of many developing countries that use protectionist measures to build competitive industries. Examples include South Korea and Taiwan, which implemented protective policies in their early stages of industrialization, leading to successful economic transformation.

Max Weber's work on the sociology of economic behavior highlighted the importance of cultural and institutional factors in economic development. He argued that the Protestant ethic and cultural values significantly influenced the development of capitalism in Western Europe (Weber, 1905). Weber's insights remain pertinent as they underline the role of cultural and institutional contexts in shaping economic behavior and development. Modern analyses of economic development often consider cultural factors and institutional quality as critical determinants of economic outcomes.

James Buchanan, a key figure in public choice theory, analyzed how political and economic institutions affect economic policies and outcomes. He argued that self-interested behavior by political agents often leads to suboptimal policy decisions, emphasizing the need for constitutional constraints to ensure good governance (Buchanan & Tullock, 1962). Buchanan's work is highly relevant in contemporary discussions on governance and economic policy. Issues of political corruption, policy inefficiency, and the need for institutional reforms in many countries reflect Buchanan's concerns about the impact of political structures on economic performance.

While institutional economic stream provide invaluable insights about the role of institution into competativeness, they are not without significant critiques. Friedrich List's advocacy for protective tariffs and government intervention to support infant industries has been criticized for promoting protectionism, potentially leading to inefficiencies and stifling competition. Critics argue that prolonged protection can create dependency on government support and hinder global competitiveness (Krugman, 1987; Irwin, 1996). Max Weber's analysis of the Protestant ethic and its influence on capitalism development has been critiqued for its Eurocentric perspective, oversimplifying the complex interplay of economic, social, and cultural factors in economic development (Giddens, 1971; Bendix, 1977). James Buchanan's public choice theory is criticized for its inherently cynical view of government, suggesting that all actions are driven by self-interest, which can undermine trust in public institutions. Additionally, Buchanan's emphasis on constitutional constraints to limit government action is seen by some as overly restrictive,

potentially hindering necessary governmental interventions during economic crises (Green & Shapiro, 1994; Ostrom, 1998).

2.2.4. Contemporary Concepts and Theories of Competitiveness

Krugman's concept of competitiveness (Paul R. Krugman)*:* Paul Krugman's New Trade Theory revolutionized the understanding of international trade by emphasizing the role of economies of scale and network effects. Krugman stated that productivity growth is the main driver of competitiveness. The international competitiveness of countries is associated with their high standard of living (Coissard, 2009). Unlike traditional trade theories, which focus on comparative advantage due to factor endowments, Krugman's theory explains that countries might specialize in certain industries because of the efficiencies gained from large-scale production and the benefits of product differentiation. His model incorporates monopolistic competition, where firms produce similar but not identical products and compete globally (Krugman, 1979). Krugman's New Trade Theory is highly pertinent in today's global economy. It explains the prevalence of intra-industry trade and the success of industries like technology, pharmaceuticals, and automobiles, where economies of scale are significant. For instance, the tech industry, exemplified by companies like Apple and Samsung, benefits from large-scale production and global distribution networks. However, this focus on economies of scale can lead to market concentration, where a few large firms dominate the market, potentially stifling competition and innovation in the long term.

In the early 1990s, Krugman expanded his ideas into the field of economic geography with his New Economic Geography theory. This theory examines why economic activity tends to concentrate in particular regions, highlighting the importance of transportation costs, economies of scale, and the mobility of labor and capital. Krugman explains how industrial clusters form and why certain areas become economic hubs, benefiting from agglomeration economies (Krugman, 1991). Krugman's New Economic Geography is highly relevant in explaining the development of economic hubs and metropolitan areas that drive national and regional growth. These hubs and areas are where businesses, talent, and infrastructure are concentrated, leading to increased productivity and innovation. However, the theory also brings to light the issue of regional disparities, where peripheral areas might be left behind, resulting in uneven economic development and increased inequality.

Krugman has been a vocal critic of the notion of national competitiveness, which he argues is often misunderstood. He posits that comparing national economies to corporations is flawed because nations do not compete in the same way companies do. Instead, economic policy should focus on increasing productivity, fostering innovation, and improving overall economic welfare rather than competing directly with other countries (Krugman, 1994). Krugman's critique remains highly relevant, especially in contemporary policy debates. The overemphasis on national competitiveness can overshadow critical issues such as income inequality, environmental sustainability, and social welfare. For example, focusing too heavily on competitive rankings may lead policymakers to prioritize short-term gains over long-term sustainable growth. Krugman's perspective encourages a more balanced approach, emphasizing the importance of inclusive growth and social policies that ensure broader participation in economic benefits.

***Porter's theory of competitiveness (Michael E. Porter)**:* Competitiveness depends on long-term productivity, which requires a business environment that supports continual innovation in products, processes, and management. The four underlining conditions driving the global competitiveness of a country's companies include factor endowments, demand conditions, related and supporting industries (clusters), and the firm's strategy, structure, and rivalry (Porter, 1998). It also emphasizes the role of innovation and continuous improvement in achieving and sustaining competitive advantage. He argues that competitive industries are often geographically concentrated, forming clusters that enhance productivity through localized synergies and knowledge spillovers.

Porter's model is highly relevant in today's globalized economy, where innovation and knowledge economies are pivotal. Examples include Silicon Valley in the United States, known for its technology cluster, and Germany's automotive industry cluster. These clusters demonstrate the importance of localized ecosystems in fostering competitive industries. However, critics argue that Porter's model may overemphasize the role of geography in an increasingly digital and interconnected world where virtual networks and global value chains also play significant roles.

Global Value Chains (GVCs): The concept of GVCs has emerged as a significant framework for understanding international competitiveness. GVCs describe the full range of activities involved in the production of goods and services, from conception and design to production, marketing, and distribution. Participation in GVCs allows countries and firms to specialize in specific stages of production, benefiting from economies of scale, technological transfer, and access to global markets (Gereffi, 2018).

GVCs are crucial in the modern economy, as they facilitate the integration of developing countries into the global market by allowing them to engage in specific segments of production rather than complete product manufacture. For example, many Southeast Asian countries have become key players in the electronics manufacturing GVC. However, reliance on GVCs can also expose countries to global economic fluctuations and supply chain disruptions, as seen during the COVID-19 pandemic when many global supply chains were severely affected.

In a nutshell, the classical approach focuses mainly on competitiveness at the macro-level (international, country, and regional), whereas the neoclassical and contemporary approaches emphasize the micro-level.

Innovation and Competitiveness: Contemporary theories place significant emphasis on innovation as a driver of competitiveness. Joseph Schumpeter's concept of "creative destruction" highlights the role of innovation in economic growth and competitive dynamics. Firms that innovate can disrupt existing markets and create new ones, thus gaining competitive advantage. Modern extensions of this theory include the focus on R&D investments, technological advancements, and the adoption of digital technologies (Schumpeter, 1942; OECD, 2020).

Innovation is a cornerstone of competitiveness in today's knowledge-based economy. Countries investing heavily in R&D and fostering innovation ecosystems, such as South Korea and Israel, consistently rank high in global competitiveness indices. However, the innovation-driven approach can also lead to increased inequality as benefits are often concentrated in specific sectors and regions, potentially leaving behind less innovative industries and areas.

Inclusive Competitiveness: The concept of inclusive competitiveness extends traditional views by incorporating social dimensions such as equity, sustainability, and inclusivity. It argues that for competitiveness to be sustainable in the long term, it must be inclusive, ensuring broad-based participation in economic growth and the benefits thereof. This includes policies that promote education, healthcare, and opportunities for marginalized groups (Porter & Kramer, 2011). Inclusive competitiveness is increasingly relevant in contemporary discussions on sustainable development and social equity. Countries that promote inclusive policies, such as the Nordic countries with their strong social welfare systems, tend to achieve high levels of both economic performance and social well-being. However, implementing inclusive competitiveness can be challenging due to political and economic constraints, particularly in developing countries with limited resources.

2.3. Export Diversification

The acceleration of global trade in the latter half of the 20th century has seen patterns of trade vastly differ from those predicted by classical trade theories built around perfect competition, comparative advantage, and constant returns to scale (Krugman, 1980). Based on Adam Smith's concept of division of labor and specialization for economic growth and development and the Heckscher-Ohlin Samuelson (HOS) model of international trade, countries should specialize in producing those goods in which they have a comparative advantage. Recent literature, instead, has found that countries appear to diversify in terms of production and exports as they grow. In most of the studies carried out, reference is made to the "concentration phenomenon," which basically consists of commodity and market concentration and is believed to be the major contributor to instability in export revenue. It is argued that countries with commodity concentrations are adversely affected by volatility in market prices through swings in foreign exchange revenues. In this regard, it has commonly been suggested that a broadening of the export base through a more diversified national trade portfolio can help maintain stability in export receipts, thus fostering long-term economic growth.

Among others, export performance largely depends on the product and market diversification or concentration strategy, but the decision regarding which of these strategies works better is not an easy task. On the one hand, the concentration of export production can promote specialization (Santos et al., 2000). On the other hand, diversification can secure steady long-term export earnings (Ibid.). Besides, diversification strategies have more space to accommodate spillover effects in non-export industries (Hesse, 2008). Usually, diversification of the export product portfolio is associated with increasing the variety and share of technology-intensive manufactured goods in total exports. Hence, among other benefits, it can enhance the performance of other industries that lag in performance (Herzer et al. 2006). Although vast literature is in favor of diversification strategies, one should bear in mind the level of economic development of a trading partner (e.g., least developed, developing, or developed) and the demand for exported products in destination markets (Santos, 2002).

Export diversification can generally be defined as the change in a country's export composition and structure. The process can be achieved by changing existing export commodity patterns or by expanding innovation and technology in them. Dennis and Shepherd (2007) describe export diversification as broadening the variety of products that a country is exporting. Actually, export diversification can take mainly two-dimensional forms, namely, horizontal and vertical (Herzer

and Nowak-Lehnmann, 2006). Generally, a horizontal diversification of exports is simply an increase in the number of primary product mixes, which usually takes place within the same export sector. Referring to a study by Samen (2010), adding new products to existing export baskets within the same sector helps reduce the effects of the fluctuation of global commodity prices and alleviate adverse economic risks. To achieve economic growth through horizontal diversification, a country should either increase its share of products in the market to increase export earnings or introduce new products that can fetch good prices in the world market (Ali et al., 1991). Herzer and Nowak-Lehnmann (2006) argue that a horizontal diversification of exports generates positive externalities to other sectors of the economy brought about by the dynamic learning activities in export-oriented sectors acquired through exposure to foreign firms and international competitions. On the other hand, a vertical diversification of exports occurs when a country's export structure shifts from primary products to secondary or tertiary sectors, or manufactured products.

The process employs the use of existing and new advanced merchandise by undertaking value-added activities such as processing and marketing. These improvements bring stability to export earnings as the prices of manufactured exports are less fluctuating compared to the prices of primary exports. Growth via vertical export diversification comes either by introducing and expanding value-added activities or by selecting new products based on their value-added potential. Hausmann et al. (2007) concluded that export structure matters in a country that has a higher productive capacity with a diversified export structure and performs better in the world export market. Both horizontal and vertical export diversifications can produce positive results for a country's economic growth, but their performances have different dependencies on technology, marketing, and skills. Vertical diversification requires more advanced technology, sophisticated policies, skills, and initial capital investment relative to horizontal diversification.

Research has shown that the majority of export growth at the extensive margin is achieved not through the discovery of new products but by expanding existing exports to new markets (Brenton & Newfarmer, 2009). Most developing countries export to a relatively narrow range of markets, far fewer than developed countries exporting in the same sector. Expanding market reach for products that have already proven to be competitive in at least some export markets can offer a substantial channel for growth. Yet to do so typically requires overcoming some barriers to competitiveness, such as transport costs, standards, or access to market information.

***Quality/sophistication*:** A growing literature has highlighted the importance of export quality or sophistication in contributing to competitiveness (Hallak and Sivadasan, 2009). While there is no consensus on the foundations of quality, most research suggests there is a strong relationship between the forces that contribute to quality upgrading and those that contribute to productivity growth, in particular human capital, innovation, and knowledge diffusion. One key debate is whether export competitiveness is best achieved through an evolutionary process of upgrading—selling lower-quality goods to regional markets and building capabilities before moving into more competitive, sophisticated global markets—or leapfrogging immediately to sophisticated goods and/or rich country markets.

Adjustment: While discussions of productivity tend to focus on relative costs of production, it is important to recognize that competitiveness is not a static concept, nor is it one that should focus exclusively on cost at the expense of price and demand-related issues. Industries and places face constant change. Some of these are evolutionary, while other forces of change act as exogenous shocks. These can take many forms, including social and environmental (e.g., climate change); political and economic (e.g., trade rules, taxes, exchange rates, non-tariff barriers); innovation and "disruptive" technologies (e.g., mobile telecommunications). All of these forces change the basis of competitiveness in the short or medium term. Therefore, what matters for competitiveness is not only the capability to be productive in a static or slowly evolving external environment but also the ability to adjust and adapt to structural changes. Being able to remain competitive and adapt to changes requires redeploying resources (capital, labor, and institutions) to higher-value activities.

In conclusion, the current state of the export performance literature could be summarized as (i) methodologically fragmented in that there is a variety of analytical and methodological approaches; (ii) conceptually diverse, a large number of determinants have been identified as having direct or indirect influence on export performance, and a large number of indicators have been used to conceptualize and operationalize the export performance measures; and (iii) inconclusive, the studies have produced inconsistent results of the impact of different determinants on export performance.

2.4. Empirical Literature Review

2.4.1. Export and Economic Growth

The evidence from East Asian export-led economies showed that "countries that are engaged in more trade grow richer more quickly" (Farole and et al., 2010:2). There is a strong consensus in most literature on the positive relationship between export trade and economic growth. A strong correlation between a country's trade share and its economic growth performance is evidenced in many empirical studies (Dollar and Kraay, 2004; Romalis, 2007). There is also empirical evidence that shows that in countries where exports are the main growth strategy, trade shares of GDP have grown rapidly. For example, Vietnam's trade has reached 158% of its GDP, Thailand's 136%, and Cambodia's 113%, while Laos has a trade share of only 47% of GDP (UNCTAD, 2022).

Of course, practical experience and export success are highly related to supply-side factors. According to Farole and et al. (2010), the factors include macroeconomic policies; poor factor conditions such as cost and labor skills; cost of capital; poor infrastructure and backbone services; and transport and logistics inefficiencies. These are the main factors that contribute to or constrain a given country's export competitiveness by raising production and trade costs.

2.4.2. Export Competitiveness and Diversification

Given that exports constitute a significant and growing share of GDP for most developing economies, over 66 percent of developing countries have an export share exceeding 20 percent (UNCTAD, 2011:3). If one takes a look at the relationship between export diversification and export growth, the empirical literature shows that there are mixed results on the impact of export diversification on total export growth.

For example, Hassan and Toda (2004) conducted a study on three developing countries: Bangladesh, Nepal, and Myanmar. They examined the association between export diversification and export growth and found a mixed result. Vertical diversification of non-traditional exports were said to have more significant impact on total export growth than that of horizontal diversification, in cases of Bangladesh and Nepal. In the case of Myanmar, however, the study found no association between export diversification and total export growth. The study pointed out that vertical diversification towards non-traditional products such as ready-made garments, footwear, and miscellaneous manufactured products gave momentum to export growth in Bangladesh and Nepal.

In the same manner, the study conducted by Derosa (1992) analyzed a data series of 42 developing economies. In this correlation analysis, the relationship between export diversification and export growth was examined. The findings revealed the presence of a strong positive correlation between export diversification and export growth. Likewise, two other studies confirmed that export diversification has a positive effect on total export growth. Here it is possible to mention other studies by Al-Marhubi (2000), who explored the positive link between diversification and growth using cross-sectional regressions of the growth of countries, and another comprehensive study on 48 African economies by Mold and Prizzon (2008).

On the other hand, the analysis made by Ali et al. (1991) on the export performance of three sub-Saharan African countries, namely Malawi, Zimbabwe, and Tanzania, found that there is no clear relationship between the degree of export diversification and export performance for the three African economies.

2.4.3. Export Diversification and Integration

Trade is an engine for economic diversification and private sector development, as the private sector is expected to benefit from accessing foreign markets by producing the right product. The World Bank (2022) stated that promoting linkage regionally and globally through the global value chain system enhances the economic diversification and competitiveness of nations. The study emphasized that trade integration has a direct effect on poverty reduction for the citizens of the nation in general and small-scale cross-border traders in particular, who trade crossing borders on a daily basis to support their livelihood by selling goods and services in neighboring available markets. Commodity exporting countries such as Ethiopia, with concentrated export baskets, have the most to gain from diversifying towards higher-value-added goods and services. This process can be catalyzed through trade integration with the region as well as the rest of the world. According to the study conducted by Brenton (2010), successful export growth and diversification necessitate not only entry into new export goods and services and destinations but also the survival and growth of export flows.

The policy paper of the IMF (2014) tried to indicate that upgrading the quality of export products (value addition) is closely associated with greater domestic production diversification and productivity growth. The study also stated that "*increases in income per capita at early stages of development are typically accompanied by a transformation in a country's production and export*

structure." This can include diversification into new products and trading partners as well as increases in the quality of existing products.

The policy paper stressed that most low-income countries (LICs) have historically been deeply reliant on a few ranges of traditional primary commodities and a few numbers of export markets for the majority of their export earnings and bases of growth. These patterns have been changing over the past few years, although with significant variation in the extent of diversification. There is still sufficient scope to upgrade the quality of LICs' existing export basket and introduce new higher-value products and services.

2.4.4. Export Concentration, Export Earnings, and Growth Volatility

Despite the growing participation of developing countries in world trade, their exports are increasingly concentrated in a narrow range of products compared to those of more advanced economies (UNCTAD, 2011).

Examining trends in export concentration by region indicates that Africa had the highest export concentration ratio. This regional picture reveals extremely interesting trends: "although Asia is the region with the highest export dependency, it has the lowest degree of export concentration." "In other words, the portfolio of exports from Asia appears to be much more diversified relative to other regions" (UNCTAD, 2011:8).

If a country's exports are perfectly concentrated, then its export earnings will fluctuate with international price fluctuations. Such fluctuations, especially in the case of commodities, can be very large, varying by 30–50 percent on a monthly basis. Countries with a more diversified portfolio will find that price fluctuations in the prices of two or more products will have a smoothing effect on total earnings. The more diversified and unrelated a country's exports are, the less volatile its earnings will be. Put differently, a more diversified export portfolio will have a more stable stream of export revenues (Samen 2010:12).

It has been argued that, by providing a broader base of exports, diversification can lower instability in export earnings, expand export revenues, upgrade value added, and enhance growth through several channels. These include: improved technological capabilities via broad scientific and technical training as well as learning by doing; facilitation of forward and backward linkages within the output of some activities that then become inputs of other activities; and increased sophistication of markets, scale economies, and externalities. "When exports are more diversified,

knowledge spillovers in the form of productivity improvements, efficient management, and increased technical, technological, and market knowledge tend to be enhanced" (Gutierrez D. Pineres and Ferrantino, 2000:24).

Although many developing countries seek to diversify their exports, many do not succeed. Among developing countries, only a few emerging economies have reached levels of diversification similar to those of developed countries. African countries remain vulnerable to external shocks, as their exports are generally concentrated in a few products exported to a few destinations (UNCTAD, 2011).

The change in export diversification reflects whether countries are becoming more or less diversified. Many African countries became more diversified between 2020 and 2015, whether in terms of products or both products and destinations. However, for some countries in Africa, as well as in Latin America and Europe, the trend went in the opposite direction. (Abdurahman, 2014)

In summary, there is adequate empirical literature that supports the decisive role that export performance can play in economic growth. What is more, the relationship between export performance and diversification as well as competitiveness has been significantly researched by scholars.

2.4.5. Ethiopian Export Performance

Mesfin and Biniam (2018) identified the constraints of the export sector as shortages of investment land, inputs, and electricity; weak trade integration and customs services' facilitations; regulations; and weak administrative and logistics support and monitoring systems. Furthermore, they pointed out that the production capacity and the investment flow to the manufacturing sub-sector were not sufficient, and the performance of the existing manufacturing industries was also weak in terms of volume and quality. Debas (2006:103) concluded in his study that "market access, low levels of private investment, high transaction costs, infrastructural deficiencies, delays in service delivery, limited market knowledge, and a shortage of skilled workers are the main constraints and challenges of the Ethiopian export sector." The World Bank (2016), in a report entitled "3rd Ethiopian Economic Update: Strengthening Export Performance Through Improved Competitiveness has considered that exchange rate overvaluation, a low level of investment in the economy, a coffee surtax, inadequate market infrastructure, high tariffs on imports of raw

materials, high trade costs, and insufficient adjustment of producer prices are some of the limiting factors to the country's export growth.

Ethiopia's export performance has shown a positive trend despite those supply-side challenges, and its export diversification is encouraging. According to Kebede (2020), among the 316 new products exported to old destinations or markets in 2013 (HS 6-digit level), 84 are textiles and textile articles, and, though the values per export are low, there are also 74 new exports of vehicles, aircraft, vessels, and associated transport equipment.

2.4.6. Institutional and legal framework for Ethiopia's export sector

The institutional and legal framework for Ethiopia's export sector is crucial for ensuring smooth and sustainable trade. In Ethiopia, the institutional framework includes the House of People's Representatives and Council of Ministers, which play key roles in enacting laws and coordinating trade policies. The House of People's Representatives focuses on laws related to inter-state and foreign trade, while the Council of Ministers oversees policy implementation and supervision.

The Ministry of Trade and Regional Integration (MOTRI) takes the lead in regulating and promoting international trade. It formulates trade policies, establishes trade relationships, ensures export quality control, and facilitates commercial registration and licensing services.

To facilitate trade, various directives and regulations are in place. Some notable ones include:

- Pulses Transaction Council of Ministers Regulation: Manages transaction controls for the pulses trade.
- Pulses Marketing Directive: Sets guidelines for pulse marketing activities.
- Export Commodities Contract Registration and Implementation Directive: Specifies procedures for registering and implementing export contracts.
- Directive to Decide the Amount of By-Products of Export Commodities: Determines the quantity of by-products allowed for export commodities.
- Directive to Permit Foreign Trade Expo: Governs the permission process for foreign trade expos.
- Directive to Decide the Amount of Chat to be exported: Regulates the export quantity of chat, a stimulant crop.

- World Trade Organization (WTO) and Regional Trade Integration Negotiation Directive: Guides Ethiopia's negotiation strategies for WTO accession and regional trade integration.
- Raw Hides and Skins Marketing Proclamation: Deals with the marketing of raw hides and skins in Ethiopia.

These regulations cover various aspects of export trade, including transaction management, market access, contract registration, by-product control, trade negotiations, and specific agricultural exports.

By having strong institutions and well-defined legal frameworks, Ethiopia aims to promote a favorable environment for export trade, ensuring compliance, and facilitating sustainable economic growth. In Ethiopia's export sector, different ministries play crucial roles in promoting and regulating trade. Let's explore the roles of some key ministries:

- Ministry of Agriculture: The Ministry of Agriculture focuses on agricultural development and promotes agricultural exports. It formulates policies, provides technical support to farmers, and ensures compliance with quality standards. The ministry plays a vital role in boosting the export of agricultural products such as coffee, tea, spices, flowers, and horticultural products.
- Ministry of Mines and Petroleum: The Ministry of Mines and Petroleum is responsible for overseeing the mining sector in Ethiopia. It formulates policies, grants licenses for mining operations, and regulates the extraction and export of minerals, precious stones, and other natural resources. The ministry ensures compliance with environmental regulations and promotes sustainable mining practices.
- Ministry of Foreign Affairs: The Ministry of Foreign Affairs handles Ethiopia's external relations and plays a significant role in promoting trade diplomacy. It fosters diplomatic relationships, negotiates trade agreements, represents Ethiopia in international trade forums, and advocates for the country's economic interests abroad. The ministry collaborates with other countries to enhance trade partnerships and resolve trade-related issues.
- Ethiopian Customs Commission: The Ethiopian Customs Commission (ECC) is responsible for customs and border management. It oversees customs clearance, import and export regulations, tariff classifications, valuation of goods, and trade facilitation at border crossings. ECC ensures compliance with customs laws, collects customs duties and

taxes, and implements trade facilitation measures to enhance efficiency in international trade.

- The National Bank of Ethiopia (NBE) Establishment Proclamation plays a vital role in regulating and supervising the country's banking sector. The NBE formulates monetary policies, issues currency, manages foreign exchange reserves, and ensures the stability of the financial system. It oversees commercial banks, microfinance institutions, and other financial institutions to maintain a sound and stable banking sector that supports economic growth and facilitates international trade.
- The Ministry of Transport and Logistics is responsible for the development and regulation of transportation systems in Ethiopia. It formulates policies and strategies to enhance transportation infrastructure, including road, rail, air, and maritime networks. The ministry plays a crucial role in facilitating the movement of goods within the country and across borders, thus facilitating trade and supporting the overall economic development of Ethiopia.
- The Ethiopian Commodity Exchange (ECX) is a marketplace where agricultural commodities, such as coffee, cereals, oilseeds, and pulses, are traded. It provides a transparent and efficient platform for buyers and sellers to trade commodities, ensuring fair prices and quality standards. ECX regulates and standardizes commodity trading practices, facilitates price discovery, and provides market information to participants, contributing to the growth and competitiveness of Ethiopia's agricultural sector.

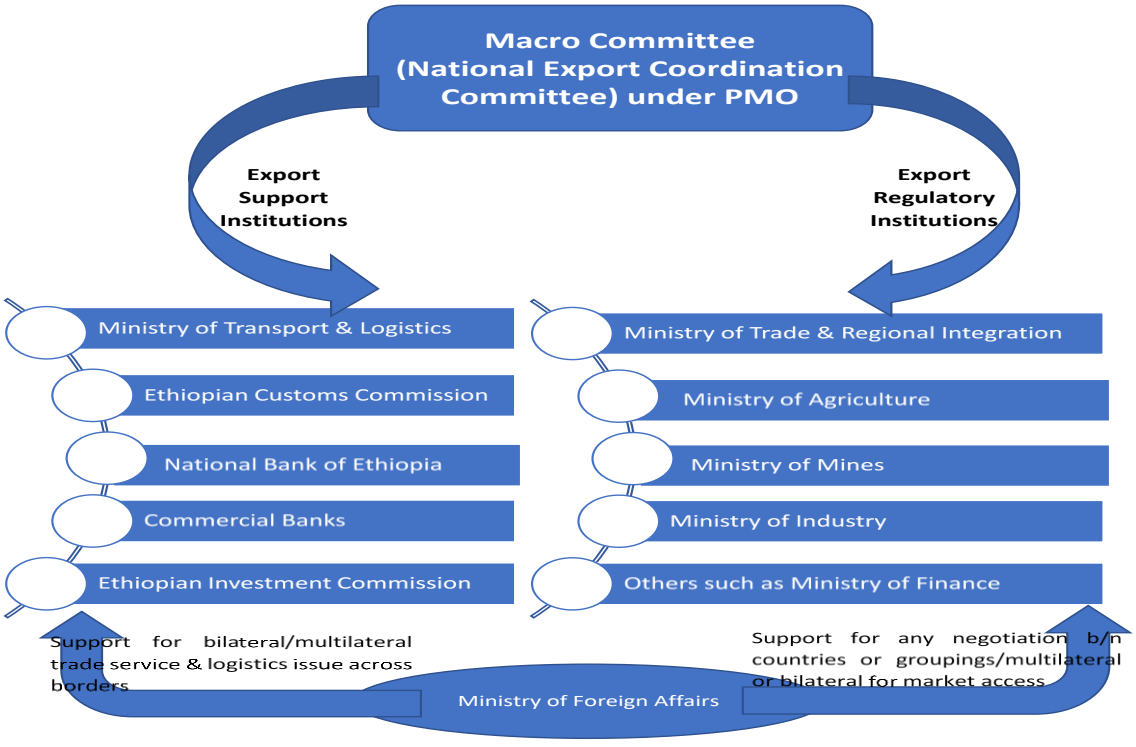
Table 1 illustrates how different major ministries practically have been regulating or supporting various export commodities.

Table 1 : Existing Practice in Export Regulation

Ministry	**Activities**

Ministry of Trade and Regional Integration	Controls or regulates the export performance of commodities such as oil seeds, pulses, cereals, natural glue, live animals, and chat. MOTRI is responsible for controlling export prices and export/sales contracts by registering and administering the contracts and setting international prices through the price setting board
Ministry of Agriculture	Controls the export performance of agriculture commodities such as coffee, tea, flower, fruits and vegetables, spices.
Ministry of Industry	Though there is no formal legal background that is responsible for the regulation of the manufactured products such as textile and garments, leather and leather products, food and beverage, meat and milk industry products, chemical and construction inputs, metals, electronics, pharmaceuticals, these products are being regulated by the ministry of industry.
Ministry of Mines	Traditionally as it can be referred from reports and interviews, ministry of mines is considered to be the regulatory organ for the export performance of mineral products, natural gas and biofuels. However, there is no proclamation or regulation that provides the power and responsibility of export regulation for ministry of mines

Figure 1: Diagrammatic representation of institutions to regulate and support for export trade



Source: Own demonstration

In conclusion, this section has tried to synthesize existing trade-related, especially export-related, proclamations, regulations, and directives to execute their respective objectives. It has also reviewed the major relevant institutions that implement the given legal instruments. However, the weakness observed in the review of various proclamations is that there is a huge mismatch and sometimes overlapping of the powers and duties of some ministries with those of others. It is also observed that some of the proclamations are reluctant to explicitly identify the organ, ministry, or

authority that would implement the respective proclamation, leaving a subjective interpretation and expression with "the relevant organ to implement the proclamation." Furthermore, as it is understood from different interviews and discussions, the export sector is regulated at different ministries, which has disintegrated trade facilitation and made the cost of doing export business more cumbersome.

The prime responsibility of MOTRI lies in trade and trade-related policy and law formulations and following up on their implementation. Furthermore, it is the duty and responsibility of the MOTRI to promote Ethiopia's export commodities, products, and services to access foreign markets. It is mandated to formulate different policies and laws to protect the domestic industry from unfair trade practices.

Trade facilitation is anchored on institutions that are vitally established by the law of the country. Ethiopia has legal instruments and institutions to support international trade, but some of its trade-related legal instruments and institutions are scattered from the main institution, which is supposed to be the supervising or controlling institution called the Ministry of Trade and Regional Integration (MOTRI). Thus, any trade-related legal instruments and institutions are supposed to be tailored to the MOTRI in order to facilitate Ethiopia's international trade.

Availing different window services to the exporting institutions or sectors is a move against trade facilitation, which is aimed at reducing trade costs and increasing competitiveness. The disintegration of some export activities, some under the ministry of agriculture and others under the ministry of mines and industry, disintegrates value-added efforts and market access negotiations. Further, it creates duplication of effort and uneconomical utilization of public money (wastage).

2.5. Export Performance Barriers

Different viewpoints are offered by trade theories to explain why particular countries are eligible to export particular goods. However, a country's ability to succeed as an exporter is not dependent on the theoretical viewpoints, but rather than the actual, practical circumstances.

Various studies outlined export barriers as the attitudinal, structural, operational, and other constraints that inhibit a firm's capability to imitate, develop, or maintain international operations. Export barriers are constraints that impede a firm's ability to initiate, develop, or sustain export marketing activities. Different researchers have classified export marketing problems into distinct

categories. One approach involves grouping these problems into "internal" and "external" barriers. Delgado (2006) identified export problems as falling under three categories: production-related, processing/marketing-related, and economic and political environment-related. Another classification by Clarke (2013) categorized export impediments into "generic," "product specific," and "market specific." Karelakis (2008) further classified export problems into four groups: "internal-domestic," "internal-foreign," "external-domestic," and "external-foreign." These categorizations provide a framework for understanding and addressing the challenges faced in export marketing.

Bezabih and Hadera (2007) pinpointed the primary obstacles in marketing as insufficient market outlets for absorbing the production, undervalued pricing of products, a high number of intermediaries in the marketing chain, absence of marketing institutions ensuring farmers' rights and interests in their marketable goods (such as cooperatives), inadequate collaboration among producers to enhance their negotiating leverage, substandard product handling and packaging, flawed pricing mechanisms, and inadequate transparency in market information systems, particularly in the export sector.

Bezabih and Hadera (2007) highlighted the key challenges in marketing as the scarcity of markets to absorb the production, low pricing of products, a significant number of intermediaries in the marketing process, absence of marketing institutions protecting farmers' interests and rights over their marketable goods (e.g., cooperatives), lack of coordination among producers to strengthen their bargaining position, inadequate product handling and packaging, imperfect pricing systems, lack of transparency in market information systems, especially in the export market.

According to the World Bank (2004), the primary obstacles faced by Ethiopian high value export products include exorbitant freight costs and limited cargo capacity, absence of a railway transportation system, inadequate airport facilities, prevalence of illegal traders, subpar packaging systems, shortage of skilled labor, insufficient pre and post-harvest infrastructure, limited access to bank loans, and absence of comprehensive market research.

2.5.1 Internal Problems

According to Leonidou (2004), internal problems or barriers can be defined as the limitations that arise from the organization's resources, capabilities, and approach to export business. These

problems are classified as issues that are under the firm's control and directly impact its operations.

Tesfom and Lutz (2006) categorized internal barriers into two distinct types: "company barriers" and "product barriers". These barriers have a significant impact on a company's marketing strategy selection and its ability to effectively implement that strategy (Porter, 1985, as cited in Tesfom and Lutz, 2006; O'Cass and Julian, 2003). The key assets and skills possessed by a company serve as its competitive advantage. The company barriers can be further classified into three categories: marketing knowledge and information, financial resources, and human resources (ibid).

Marketing knowledge and information challenges stem from inadequate understanding of foreign markets, business practices, and competition, as well as insufficient management capabilities to drive international sales. The inability to identify foreign opportunities and lucrative markets is seen as a significant obstacle to exporting from developing nations. Lumpkin et al. (2005) highlight distribution as a key issue in the export process. Numerous exporters in developing countries struggle with a lack of knowledge regarding marketing channels, hindering their ability to establish effective marketing networks. Additionally, deficient advertising and promotion strategies are identified as further constraints on export endeavors.

Financial constraints pose a significant obstacle for companies. In developing countries, numerous exporting companies struggle to function due to insufficient working capital. This not only jeopardizes their overall production operations but also leads to additional costs (ibid).

On the other hand, the success of a company is hindered by the lack of competent human resources. The attitudes and characteristics of managers play a crucial role in determining the effectiveness of export marketing activities. Insufficient knowledge in export marketing can largely be attributed to the absence of well-trained and experienced personnel. Companies that prioritize the inclusion of international requirements in their human resource management practices, particularly for managerial and professional employees, are more likely to achieve favorable outcomes in their export endeavors (Ibid).

According to Tesom and Lutz (2006), the characteristics of a product have an impact on the competitive advantage and the decision between an offensive and a defensive export strategy. The barriers related to the product influence the firm's export marketing strategy and can be

categorized into quality and technical adaptability. These barriers encompass aspects such as export product design, style, quality, packaging and labeling requirements, as well as product adaptation or modification (Ibid:24).

Quality barriers are associated with packaging, meeting the quality standards set by importers, and establishing an appropriate design and image for export markets. Developing countries have varying quality standards, making it essential for exporting companies to comply with these standards in order to remain competitive in the market.

Bharti (2014) highlighted the obstacles faced by developing countries in maintaining the quality of perishable export products, such as the effectiveness of the cold chain, outdated and poorly maintained facilities, and limited awareness and demand for cold chain services. The cold chain is crucial in preserving the quality of perishable goods like fruits and vegetables during export. Another significant challenge is the technical and adaptation barrier. Successful companies adjust their products to meet the requirements of foreign markets. Issues related to technical adaptability often stem from a lack of understanding of market needs or insufficient resources to fulfill those needs, including inadequate quality control methods, subpar raw materials, packaging and labeling standards, and product design and specifications. Furthermore, product diversification poses a hurdle to international expansion.

2.5.2 External Problems

Tesfom and Lutz (2006) identified external barriers as obstacles that originate from the external environment and are beyond the firm's control. These barriers, also known as macro environment barriers or industrial barriers, can significantly impact the firm's operations. The authors further categorized external barriers into "industry barriers", "market barriers", and "macro environmental barriers". Among these categories, industry barriers stand out as the first type of external problems. The level of exporting activities and the strategies employed in export marketing vary greatly depending on the industry.

Tesfom and Lutz (2006) highlighted that the dissimilarity among industries stems from the diverse characteristics of each industry. To formulate an effective export marketing strategy, it is essential to consider the discrepancies in market structures, company sizes, and the presence of international competitors across different markets. The structure of the industry serves as a significant barrier, encompassing factors such as firm size and economies of scale, limited access to new technologies, vulnerability to competition from large multinational corporations, and instability in the supply of raw materials. The size of a company plays a crucial role in determining

its likelihood to engage in export activities. Generally, larger firms possess a competitive advantage over smaller ones, which typically results in a positive influence on their export performance.

2.6 Challenges of Ethiopian oilseeds and pulses export

This section discuses challenges and opportunities of Ethiopian export. Different researches have been conducted related to Ethiopian export industry. Most of them, if not all, deal in sectoral and commodity specific studies.

To begin with, various factors, including foreign price level, production/productivity, product quality, real effective exchange rate, and infrastructure/rural road feeders, have been identified as independent variables influencing the oilseeds and pulses export performance, according to research conducted by Gebrehiwot (2018). Another author, Amsale (2017) emphasized the factors that Gebrehiwot found. Production and quality concerns, including those pertaining to both quantity and quality of output, the accessibility of high-quality seeds, and post-harvest losses, were identified as the main obstacles influencing the export performance of sesame seeds. Export performance was also found to be hampered by issues related to pricing and market information, such as the impact of middlemen in the export process, the availability of market information, the reliance of Ethiopian prices on international prices, the absence of a dedicated organization that provides trustworthy market information, and the limited experience sharing among exporters.

Amsale (2017) found that logistics and infrastructure are important factors that are acknowledged as major roadblocks to Ethiopian oilseeds' export success. The results of Amsale's research refuted Gebrehiwot's findings regarding the influence of infrastructure. According to Amsale (2017:39) , Gebrehiwot's research specifically showed that there was no discernible, substantial, and favorable correlation between export performance and infrastructure.

Gebrehiwot could not recognize a variable that Amsale found to be relevant to policy and regulation. Amsale identified a number of indicators as determinants, including trade protection for exporters, additional regulations required for the sector, and incentives for the industry to increase output and exports. Trade protection for exporters was regarded as a difficulty for export performance, even though the overall average indicates that policy and regulation issues are not barriers for export performance (Amsale, 2017:40).

Debas (2010) agrees with the two researchers regarding poor production, low quality, and price volatility. Debas disagrees with Gebrehiwot but concurs with Amsale over the infrastructural issue. Regarding policy and regulation, Debas concurs with Amsale in that he does not see it as a significant obstacle to exports. Debas also pointed out other issues that Amsale and Gebrehiwot failed to mention. According to Debas (2010) several challenges exist in the sector, such as elevated local expenses, partially processed products, restricted product diversification, and decreased export volumes owing to robust domestic demand, insufficient packaging, and adulteration of products, seasonal seed availability, and inefficiencies in value addition. In contrast to Debas' findings, it is important to note that adulteration was not highlighted as a serious concern in Amsale's research.

According to Alemu et al. (2011), there are ten major factors that impact the export of Ethiopian pulses. These factors include low-quality seeds, high domestic demand despite low production, impurities, an unstable domestic market, a protracted market chain, unethical broker behavior, the capacity of exporters and wholesalers to store high-quality seeds, transportation costs, fluctuations in destination markets, and a decline in demand from importing nations. While there are minor differences in some variables, such the fall in demand, Alemu and colleagues' research mostly supports the conclusions of earlier investigations. The study by Alemu et al. differs from the previous studies in that it did not take into account price volatility on overseas markets as a limitation.

Compared to the researchers cited earlier, Alemayehu (2019) has offered findings and conclusions that are in disagreement. After doing a thorough investigation, Alemayehu found six elements that influence export performance: business capacity, managerial competences, product attributes, foreign market attributes, marketing strategy, and aspects connected to institutional support. It is interesting to note that the only parameters associated with institutional support were discovered to be important predictors of export market performance. According to Alemayehu, exporters do not prioritize export as their primary business. Rather, they export in order to earn foreign exchange for importing commodities and to secure low-cost loans for importing and funding capital goods. These export activities are regarded as illicit trade practices that are not approved by the government (Alemayehu, 2019: 30-58). The same research on the elements influencing institutional support was highly significant, and it provides a solid platform for future investigations despite the inconsistencies in his conclusions when compared to other academics.

On the opportunity side, several prospects in the oilseeds industry were noted by Amsale (2017), with a focus on sesame seeds. The market opportunity, resource availability opportunity, and demand opportunity were identified as the three primary groups of these opportunities. Opportunities in the demand category included the expanding demand from China and India as they shift to agricultural products, the growing consumption in Europe and Asia, and the increased demand for Ethiopian oilseeds worldwide due to the preference for organic seeds. Favorable agro-ecological conditions, a large amount of arable land, and a trained and affordable labor force were deemed advantageous in terms of resource availability. Further considered as market potential were more advantageous market for processed seeds than for raw seeds, as well as a stronger marketing position (Amsale, 2017: 34–36).

Debas (2010) posits that Ethiopian oilseeds and pulses have benefited from several factors, including their organic content, high potential for type diversification, significant demand in the international market due to their nutritional value, labor intensiveness leading to relatively lower production costs, and advantageous geographic location relative to the global market (Debas, 2010:239). Both Debas and Amsale emphasized the steady basis of strong market demand founded on labor intensiveness and nutritional benefits.

In Tekeba's (2018) examination of the challenges faced in manufacturing commodities export, several key obstacles were highlighted. These included high logistics and transportation costs, limited focus on export incentives, low labor productivity, expensive imported raw materials, lack of adherence to international standards and market requirements, insufficient research on manufacturing industries and end market analysis, weak supply chain integration, and inadequate technological advancement. On the other hand, the same author also identified various opportunities for the Manufacturing Sector in Ethiopia. These opportunities encompass a government that is supportive of the private sector, relatively low electricity costs compared to other African nations, macroeconomic stability and a rapidly expanding economy, a growing pool of skilled labor and trained employees, competitive incentive packages that include export benefits, and the establishment of Integrated Agro-Industrial Parks that offer comprehensive services, economies of scale, bulk purchasing and selling, extension services, and the development of shared infrastructure.

Though, focused on textile and garment, Yared (2010) emphasized lack of raw materials as a significant challenge for the manufacturing commodity export. He utilized a time series econometric approach to analyze the supply side determinants influencing the export performance

of the Ethiopian textile and apparel industry between 1971/72 and 2008/09. The study revealed that the industry heavily relies on imported raw materials, leading to poor productivity. Specifically, the export of raw cotton was found to have a significant adverse effect on the export performance of the sector. When raw cotton is exported, local textile mills are deprived of the highest quality (grade-A) raw material, forcing them to resort to inferior quality (potentially grade B and C) raw cotton at a higher cost. Consequently, due to the use of subpar raw materials and outdated technology, the textile mills produce low-quality fabric for both the domestic apparel market and exports. This highlights the negative impact of raw cotton exports on the overall export performance of the Ethiopian textile and apparel industry.

Furthermore, the contributions of numerous researchers have had a substantial impact on this field of study. Kurabachew (2019), Alemu and Seifu (2003), Wijnands et al. (2009), Menji (2010), Ayalew (2016), and Allaro (2010) have all made noteworthy contributions. These scholars have illuminated the variables influencing Ethiopia's export performance. A country's location, supply-side conditions, infrastructures, trade policies, transport costs, exchange rate, productivity, foreign demand, terms of trade, fertilizer input, road conditions, domestic price, trade openness, domestic credit, quality, poor incentives for farmers, weak exporters' bargaining power and skills, poor market information and dissemination, and poor marketing infrastructure are among the factors that have been identified. Together, these factors influence Ethiopia's export performance and offer insightful information to stakeholders in the export industry as well as policymakers.

2.7. Theoretical and conceptual frameworks

As discussed in the previous sections, export performance has always been a central topic in international trade. Despite being a deeply studied area, this issue is actually the subject of a lack of consensus and synthesis concerning its conceptualization, operationalization, methodology, determinants, and performance measures. This results in a gap concerning the existence of a framework of reference. It has also been discussed the nature of performance measurements, i.e., whether there is an objective or subjective approach.

What are the reasons that explain why certain countries are more able to export than others? Why do certain countries gain export market share at the expense of others? These questions are at the heart of empirical studies on export performance. Traditionally, answers to these questions are based on the ability of countries to offer lower costs and prices than their competitors. The reality on the ground proves that several other factors, such as the type and range of available products,

the nature of the market, the degree of economic diversification, and a country's position in quality terms, are also significant in explaining export performance.

Since the concept of competitiveness lacks a universally agreed definition, empirical measurement is a challenging task in studying competitiveness. However, researchers have proposed a variety of approaches to measuring competitiveness. For the assessment of export competitiveness, the most frequently used ex-post indicators are export volume, international market shares and their growth ratio, degree of diversification, and export quality or sophistication (Farole, J., et al., 2010; Petronela, 2015).

Different literature discusses an increase in export market share as a necessary parameter for boosting export performance but not a sufficient one. Market share analysis is often seen as an indicator of competitiveness (Krugman and Hatsopoulos, 1987). The critics are concerned with the fact that this type of perspective does not consider cases when market shares are maintained through a drastic and unjustified price reduction that would obviously have a negative effect on profitability and long-term performance.

On the other hand, there is a strong association between products, market diversification, and economic growth (Lederman and Maloney, 2009), mostly in developing countries. At the same time, there are also views that argue that there is no link between diversification and competitiveness (Harrison & Rodriguez-Clare, 2009) and suggest that improving quality is the right way to increase competitiveness (Hallak and Sivadasan, 2009).

Export performance has been extensively studied in export marketing. However, appropriate export performance measurement is a topic that has been debated in the literature. The literature reflects remarkable inconsistency in defining export performance, and a large variety of elements are adopted in export performance studies.

Despite the increased number of studies that have been concerned with export performance, there is no uniformly accepted conceptualization and operationalization of the construct (Cavusgil and Zou 1994; Shoham 1998). This literature review discovered as many as 25 different performance indicators, indicating a lack of consensus with regard to the concept. Nevertheless, in spite of a large number of different export performance measures, only a few were frequently utilized, such as export intensity (export-to-total sales ratio), export sales growth, export profitability, export market share, satisfaction with overall export performance, and perceived export success. Other

measures, such as return on investment, quality of distributor relationship, customer satisfaction, and satisfaction with product or service quality compared to competitors, were examined in a few studies. This large number of different performance measures restricts the advancement of the export marketing literature because it makes it hard to compare and contrast the findings from different studies (Zou and Stan 1998).

The export performance indicators used in the literature reviewed in this study can be classified into objective and subjective measures. Indicators that are based mainly on absolute values such as export intensity, export sales volume, and export market share, among others, are called objective measures. Meanwhile, indicators that measure perceptual or attitudinal performance, such as perceived export success and satisfaction with export sales, are considered subjective measures of performance. These categories are discussed in more detail as follows:

Objective Measures

1. ***Sales-related measures:*** These measures were widely used to assess export performance. Export intensity; export intensity growth; export intensity growth compared to competitors; export sales volume; export sales growth; export sales volume compared to competitors; export sales growth compared to competitors; and export sales return on investment are sales-related measures. Export intensity was the most common measure, while export sales growth was the second-most commonly used measure.
2. ***Market-related measures include export*** market share, export market share growth, export market share compared to competitors, export market share growth compared to competitors, market diversification, rate of new market entry, rate of new market entry compared to competitors, and gaining a foothold in the market. Market-related measures have been promoted as a good indicator of success, the reason being that high market share leads to scale and experience advantages on the cost side, as well as more power in approaching customers (Madsen 1998). However, due to the difficulty of measuring actual market share, these measures have been criticized and rarely employed.
3. ***Profit-related measures:*** Profit-related measures were also used, although not as frequently as sales-related measures. These measures include export profitability, export profit margin, and export profit margin growth.

Subjective Measures

Studies using subjective measures of export performance usually assessed the concept on a five- or seven-point scale, although scales with a higher number of intervals were also employed (e.g., in Styles' (1998) study, perceived export success was assessed on a ten-point scale). The use of subjective measures has been suggested in cases where managers may be unwilling or unable to provide objective financial data or because of the difficulty in reconciling cross-national or cross-industrial differences in accounting practices, variations in exchange rates, and financial reporting between home and host countries (Woodcock, Beamish, and Makino 1994).

As a result, the most common measure among all categories is export profitability. The authors appear to believe that the use of this subjective indicator encourages more managers to respond, given that managers need not provide confidential export profitability figures. Also more widely used than in the objective categories are market share-related measures, such as export market share and export market share growth.

Unit of Analysis: The unit of analysis is another example of a critical element in the literature on export performance because it influences the process of data collection and the conclusions that might be drawn from the research as well as the whole operationalization. Thus, it can be determined whether the assessment of the export performance was successful. As the literature overview shows, competitiveness is found to be measured at different levels of analysis: mega- (global), macro- (nations, regions), meso- (economic sectors and industries), and micro- (firm's) level. Research studies employ one-dimensional, two-dimensional, and multidimensional measures. Competitiveness measures can also be classified into two categories: static (assessing the level of competitiveness at any point in time) and dynamic (assessing the changes in competitiveness over time). This research considers macro- and meso-level analysis.

A further distinguishing characteristic of the competitiveness measures is their positive, or normative, nature. Positive indicators are based on observable evidence; thus, they reflect actual performance. Normative indicators, on the other hand, involve value judgments. Closely related to this distinction is the one between ex-post and ex-ante measures. Ex-*post* competitiveness is given, for example, by measures of trade (e.g., market share) and current-account balance, both based on past information and with limited power to assess potential competitiveness. Potential (*ex-ante*) competitiveness demonstrates a capacity to compete and lies in indicators of technology, prices, and costs. A good example is the real (effective) exchange rate, which can be calculated by using export prices, import prices, and unit labor costs.

The variety of measures employed in the export performance studies is a reflection of the complexity of the export performance concept itself. Hence, different factors will have a critical role in securing successful outcomes. For this research, the researcher prefers to use a composite of objective and subjective measures. Hence, sales-related and market-share-related variables in combination with measures of satisfaction with the export venture will be used. These measurements can bridge the divide between other objective and subjective performance measures.

Thus, this research arguably adopts a contingency approach as a theoretical framework. The contingency approach provides a suitable basis for contextualizing export performance. The use of the contingency approach for measuring export performance is in line with the conclusion of Katsikeas, Leonidou, and Morgan (2000) that the choice of the export performance measurement approach depends on contextual factors. This implies the need for the adoption of a contingency approach in the selection of export performance measures to address the idiosyncrasies of the situation at hand rather than taking a dogmatic view.

After carefully looking at the relevant literature on export performance, the researcher has reached the conclusion that a **conceptually sound and reliable export performance measure** should fulfil the following criteria:

1. It has to be composite and multidimensional, i.e., include both objective and subjective measures.
2. has to have a frame of reference, i.e., be benchmarked against competitors' performance or prior performance; and
3. It has to be assessable over time, i.e., expressed in absolute as well as relative terms.

As the conceptual framework clearly depicted in figure 2, different variables are used to measure export performance. These variables are either objective or subjective in nature. The objective variables are variables that objectively measure export performance in terms of sales-related, profit-related, and market share-related parameters. These parameters have the capability to measure to what extent a given export sector or nation is internationally competitive. Of course, the objective parameter per se is not enough to completely measure the competitiveness of exports. Additional variables need to be measured that are subjective and analysed qualitatively. Therefore, the conceptual framework used here is holistic; in a sense, a combination of both objective and subjective measures is applied.

Figure 2: Conceptual Framework

Source: author's demonstration

2.8. Operational Definitions of Basic Concepts

Export performance is the relative success or failure of a nation's efforts to sell domestically produced goods in other nations' markets. Export performance can be described in objective terms such as sales, profits, or marketing measures or by subjective measures such as customer satisfaction.

National Export Competitiveness: National competitiveness can be understood as a country's capability to establish itself in foreign markets due to price or other factors but also [in terms of] an economy that is capable of achieving a high level of real earnings.

Export diversification: The concept refers to deliberate policies intended to change the shares of commodities in the existing export mix, introduce new products in the export portfolio, and/or enter new geographical markets. As per the World Bank (2022), it can be classified into extensive and intensive margins of diversification.

Extensive export diversification reflects an increase in the number of export products or trading partners.

Intensive export diversification considers the shares of export volumes across active products or trading partners.

Export sales volume is about how many containers or quantities of goods or services are exported. It may be kilograms or metric tons of goods. Generally, the ton is used worldwide for calculating the volume of goods.

Export sales value is the value of your exported goods in currency. It may be in USD, EURO, Birr, pound, etc.

Export Market Share**:** It is a country's proportional gain in the foreign market of its products in the foreign or destination markets.

Export profit**:** the earnings of a country that are generated through the export of goods and services to foreign territories

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

This chapter describes the research methodology of the study. The research techniques, data collection method, sampling process, questionnaire development, and data analysis technique are outlined.

This research follows the Deweyan pragmatism research design. The ontological foundation of pragmatism is the idea that reality is constantly renegotiated, debated, and interpreted in light of its usefulness. Epistemology, the best method to know reality, is the one that solves problems.

Finding out is the means; change is the underlying aim. The research design of Deweyan pragmatism, which is based on the philosophy of John Dewey, highlights the interconnection between theory and practice. It values experiential learning and problem-solving in real-world situations. This approach considers knowledge as provisional and dependent on the context, emerging from the interactions between individuals and their environments (Corbin and Strauss, 2008). Researchers who adopt Deweyan pragmatism engage in iterative cycles of action, reflection, and revision, continuously refining their understanding through practical experiences.

It suggests that there are multiple ways to interpret the world and conduct research, and that combining different approaches can lead to a broader understanding of the phenomena being investigated. Pragmatism involves research designs that prioritize practical decisions based on what will work best in finding answers to the research questions. This allows pragmatic researchers to approach their studies in innovative and dynamic ways, seeking solutions to research problems. Instead of relying on abstract and fixed principles, pragmatic studies define terms based on their application to human experience. In summary, pragmatism offers a flexible and practical approach to research, allowing for a broader understanding of the world and the phenomena being studied. It emphasizes the importance of finding effective solutions through innovative and dynamic research methods.

They prioritize participatory and collaborative methods, involving stakeholders in the research process to ensure its relevance and applicability. Data collection techniques often involve qualitative methods like observations, interviews, and reflective journaling, enabling a deep exploration of participants' perspectives and experiences. (Feilzer, 2010). The main focus is to comprehend the intricate interplay of factors within specific contexts, with the aim of generating practical insights that can enhance human experience and address real-world issues. Deweyan pragmatism research design emphasizes the significance of ongoing evaluation and feedback to ensure that research findings are firmly grounded in practice and contribute to meaningful change (Kelly and Cordeiro, 2020). Since the topic under discussion needs to critically see various factors and views that affect the policy and the practice of export, it is pertinent to design the research in a pragmatic way. Accordingly, the paradigm selected is a fit for purpose.

As to theoretical view point, contingency approach posits that there is no one best way to collect, analyze and present data. Instead, the optimal course of action is contingent (dependent) upon the context or situation. As this research examines variables that are both qualitative and quantitative,

no single theory can suffice explanations and analysis of the variables. Hence, so there is a need for alternative approaches. One alternative is through contingency. It is imperative to apply contingency approach which explains each themes and variables based on the context.

3.1. Research Design and Approach

This research cover twelve major export commodities, which together constitute over 90% of Ethiopian merchandize export, over the span of twelve years (2010/11 -2021/22). The study period covers GTP I and GTP II which gave emphasis on export. The study employed an exploratory and descriptive research design, utilizing a qualitative-based mixed-methods approach for data collection and analysis in a concurrent style. The theme of export performance is, in line with what has been presented, one of the most studied thematic areas in the field of international trade. Therefore, there are practical motivations that support the development of a qualitative study since this field presents rather complex problems and issues to be addressed, as well as the fact that in this field there is a lack of theoretical understanding (Armstrong and Wright, 2007). Moreover, Kathleen et al. (2007) argue that the qualitative approach "offers insight into complex social processes that quantitative data cannot easily reveal.

There are also some data points that need to be dealt with quantitatively. Data that are related to volume, value, profitability, and balance of payment are gathered and discussed quantitatively.

3.2. Data source and data collection instruments

Since the data for the qualitative study is collected in a purposive sampling method, the researcher identified important sources both in terms of institutions and individuals. Accordingly, various individuals from government institutions, exporters' associations, as well as individuals who are believed pertinent to the subject matter were interviewed, included in the focus group discussions. Data has been collected from both primary and secondary sources. Accordingly, all parties pertinent to the issue under discussion, including government institutions, private sector actors, and think tanks, are used as data sources. Among government institutions, the Ministry of Trade and Regional Integrations (MOTRI), the Ministry of Industry (MOI), the Ministry of Agriculture (MOA), Ethiopia's Customs Commission (ECC), the Ethiopian Coffee and Tea Authority (ECATA), the National Bank (NBE), and other relevant intuitions have been selected as data sources. Consequently, higher officials, department heads, and experts of respective institutions have been interviewed as key informants, in addition to focus group discussion participants. As to the private sector, different exporters' associations and selected individual exporters were

engaged. What is more, primary data is collected through questionnaires, interviews, and focus group discussions.

Questionnaires: The questionnaire consisted of questions that helped obtain qualitative data. In order to get their respective opinions and reflections, a semi-structured questionnaire was set and filled out by experts and exporters. For target respondents who were local and foreigners, the English and Amharic versions of the questionnaires were distributed based on relevance and purpose. Though representativeness is not an issue in qualitative data collection, adequate questionnaires were collected from all target institutions and their respective experts, officials, and exporters. Accordingly, 95 questionnaires were distributed, and eighty-seven were appropriately filled out and returned.

Interviews: Interviews were conducted with fifteen key informants from respective institutions. The interviews were open-ended so that all necessary information was acquired for such an interview, which gave the interviewer a chance to probe and ask for more clarifications. Key informants included higher officials, selected department heads pertinent to the issue under discussion, selected exporters, and researchers.

Focus Group Discussions: Three focus group discussions were organized in a heterogeneous manner. A heterogeneous group is important to get different views and arguments on the issues under discussion. The FGDs were made with exporters, experts, and higher officials of relevant institutions.

Secondary sources include different reports and plans of respective institutions, research findings, and data from the Ethiopian Custom Commission, Ministry of Trade and Regional Integration, World Bank, World Integrated Trade Solution (WITS) and Trade Map. Accordingly, different websites, institutions' archives, and libraries were critically consulted.

3.3. Validity and Reliability

The validity and reliability of this particular study is established through triangulation. Triangulation, in essence maintains the overall integrity of this research, and ultimately renders most accurate and replicable outcomes. To achieve this, the researcher has adopted a wide range of mechanisms throughout the course of this investigation. First, all research methods and data collection instruments are carefully checked before and so as to minimize any defects that could lead to inaccurate results. Second, the researcher in advance uses identical interview guide and

raises similar set of questions for all sample respondents. Third, data gathered from secondary sources were crosschecked for their relevance and credibility. Finally, all the data and information are correlated and triangulated systematically to increase validity and reliability of the final results of this study.

3.4. Ethical Consideration

To ensure the integrity of the research and the dignity of the interviewees, the study adopted several ethical standards. The individual interviewees were informed about the purpose of the study and the reasons for their inclusion, and their consent to participate was requested. Additionally, the information provided by the informants was analyzed and presented without any distortion or misinterpretation. Furthermore, all the materials that are cited or quoted in the study are properly acknowledged. The study also received ethical clearance from the relevant review board at Addis Ababa University (AAU) prior to its commencement.

3.5. Methods of Data Analysis

Both qualitative and quantitative analytical tools have been used for data analysis. Qualitative data, including key informant interviews, focus group discussions were analyzed through content analysis. Descriptive statistics such as ratios and percentages are also employed with the aid of graphs and tables. Accordingly, explanatory and descriptive methods of data analysis are applied. Apart from these, two other quantitative analyses, viz., HHI and RTB, are applied to assess export diversification and its competitiveness. The HHI and RTB are selected due to their simplicity, clarity, comprehensive nature, and direct applicability to policy and strategic decision-making. These quantitative tools are described below.

3.5.1. Export Diversification

To measure export diversification, the study uses the Herfindahl-Hirschman index (HHI), which is a concentration index that can be easily implemented and adapted for different types of export diversification. HHI assigns more weight to products with larger shares by squaring shares before adding them up. The HHI is used as an inverse measure of Ethiopia's export diversification in this study.

In this study two kinds of diversification were computed i.e. Product diversification and destination diversification. It can be expressed as follows:

$$HHI = \sum_{i=1}^{N} (\frac{x_i}{X})^2$$

In case of product diversification, where: x_i is the nominal domestic export value of a major commodity i (twelve major commodities including coffee, gold, flowers, oilseeds, chat, pulses, leather and leather products, meat and meat products, live animals, textile and garments, food and beverages, fruit and vegetables); X is the country's total nominal export value; and N is the total number of export products. In case of destination diversification, x_i is the value of export destination of individual country i; X is the country's total nominal export value; and N is the total number of destination countries.

The HHI ranges from near zero (indicating perfect diversification) to 1 (representing perfect concentration of exports in a single product). Lower values of HHI indicate a more diversified set of products, while higher values suggest a less diversified export portfolio. In this study, specific thresholds are used to categorize the level of export diversification based on U.S. Federal Trade Commission and the U.S. Department of Justice (August 2010) to differentiate between diversified, moderately concentrated and highly concentrated exports or markets. HHI < 0.15 for diversified exports, 0.15 ≤ HHI < 0.25 for moderately diversified exports, and HHI ≥ 0.25 for less diversified exports.

3.5.2. Trade Competitiveness of Ethiopia

Among the different measures available to assess trade competitiveness, relative trade balance is employed for this study. The relative trade balance is the ratio between the trade balance (exports minus imports) and the total trade (exports plus imports).

Mathematically, it can be computed as follows:

$$RTB = \left(\frac{X - M}{X + M}\right) 100$$

Where: RTB is the relative trade balance, which can be computed for the overall trade balance or trade balance in a given sector, as required, for a particular year; X is the value of exports from a given sector or for the whole country, as required; and M is the value of imports in a given sector or for the whole economy, as required.

RTB shows whether a country is a net exporter (where national production outweighs national consumption) or a net importer (where consumption outweighs production). It takes values between -100 and +100 (per cent), with positive values indicating that the country is a net exporter, whereas negative values indicate that the country is a net importer.

The value is computed for twelve years in order to assess the changes over time in Ethiopia's trade competitiveness.

CHAPTER FOUR: PERFORMANCE, DIVERSIFICATION AND COMPETITIVENESS OF ETHIOPIAN COMMODITY EXPORT

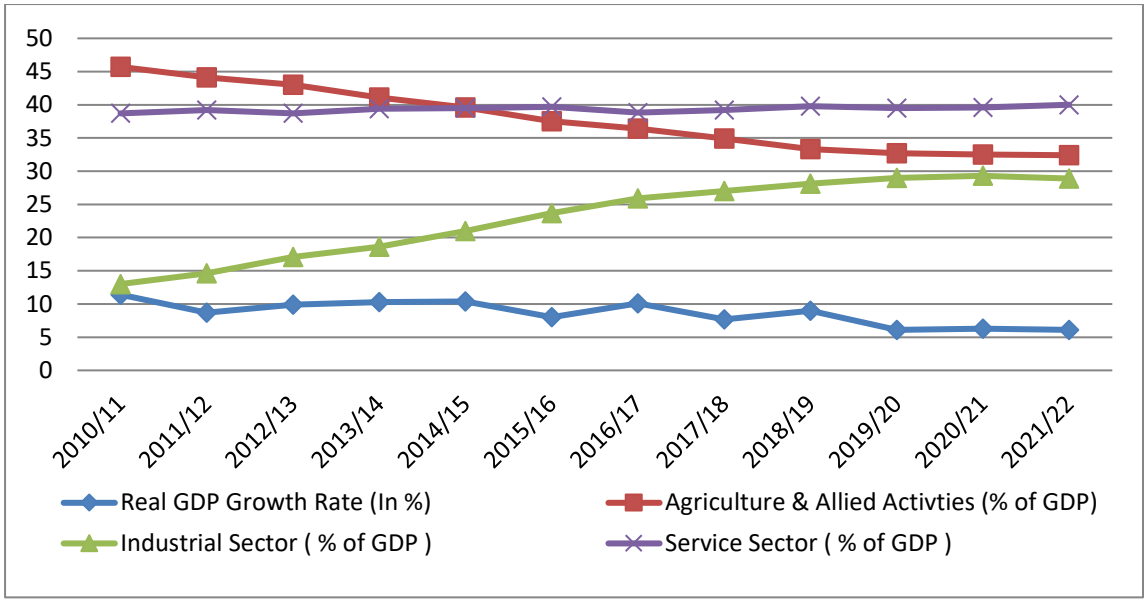
This chapter embarks on a comprehensive exploration of the performance, diversification, and competitiveness facets within Ethiopian commodity exports. Through a detailed analysis of these pivotal dimensions, this chapter unveils key findings and fosters in-depth discussions, shedding light on the present realities and future trajectories of Ethiopia's export sector. It examines the performance metrics of Ethiopian commodity exports, scrutinizing the factors underpinning their competitiveness in the global market arena. Furthermore, it delves into the intricacies of diversification strategies, essential for bolstering resilience and sustainability amid evolving market dynamics. These insights serve as invaluable guideposts for policymakers and stakeholders alike, steering them towards informed decisions and strategic interventions aimed at enhancing Ethiopia's global export prowess and economic prosperity.

4.1. An Overview of Ethiopian Export

Ethiopia is a country located in the Horn of Africa. In terms of per capita income, Ethiopia remains one of the poorest countries in the world, with a nominal GDP per capita of $1,218 in 2021/22. However, this represents significant progress compared to a decade ago, when nominal GDP per capita was just $406.5. Ethiopia has experienced strong economic growth over the past decade, with average annual growth rates of around 9%. However, growth has moderated somewhat in recent years, with the growth rate remaining below 7% since 2018/19. Although there were fluctuations in growth rate due to political instability, drought, debt services and some external shocks like Russian Ukraine war, the overall trend suggests a positive and resilient economy.

While agriculture & allied activities sector remains an important contributor to Ethiopia's economy, its share of GDP has declined steadily over the past decade, from 45.7% in 2010/11 to 32.4% in 2021/22. This decline indicates a gradual shift towards other sectors as the economy diversifies. The industrial sector has been growing steadily, contributing more to the GDP over time. It accounted for 13% of the GDP in 2010/11 and increased to 28.9% in 2021/22. This growth can be attributed to efforts in industrialization and the development of manufacturing and construction industries in the country. Despite the industrial sector's steadily growth in contributing to GDP in the

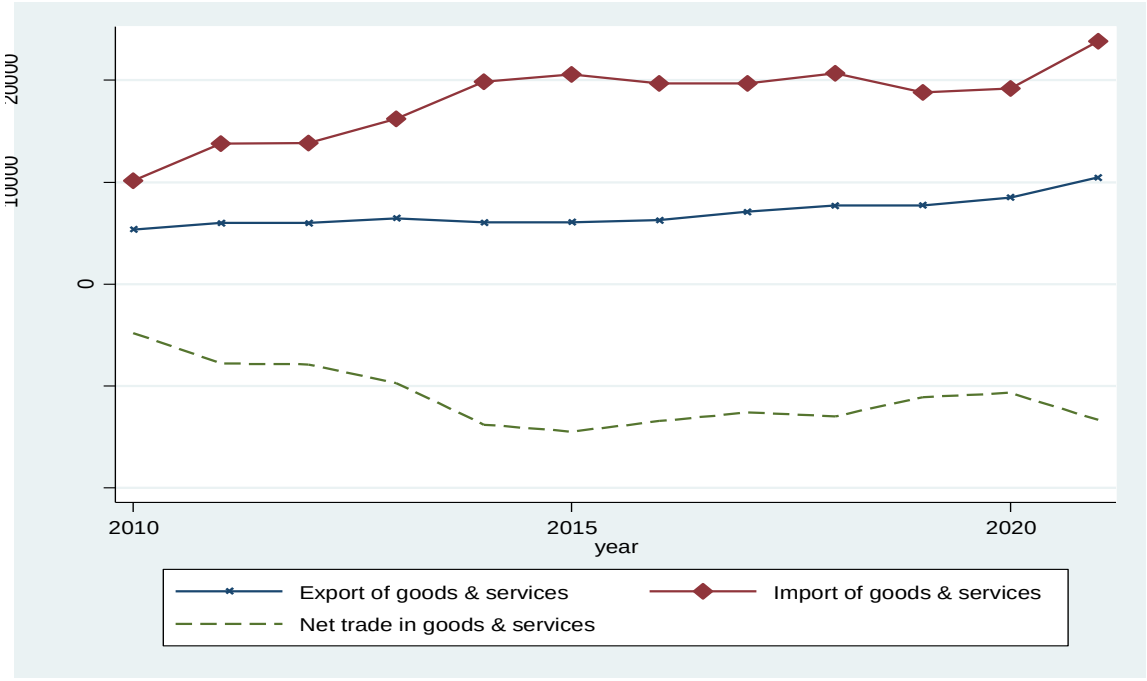
Figure 3: Growth of Ethiopian Real GDP and Allied Sectors (2010-2022)



Source: author's calculation based on NBE (2022)

past decade, its contribution to export remains limited due to constrained export capacity. This shows the desired structural transformation has not been achieved. The service sector has been out passed the agricultural sector since 2014 and become the leading contributor to Ethiopia's economy, accounting for 40% of GDP in 2021/22.

Figure 4: Trend of Export and Imports of Goods and Services and Net Trade (2010-2022)



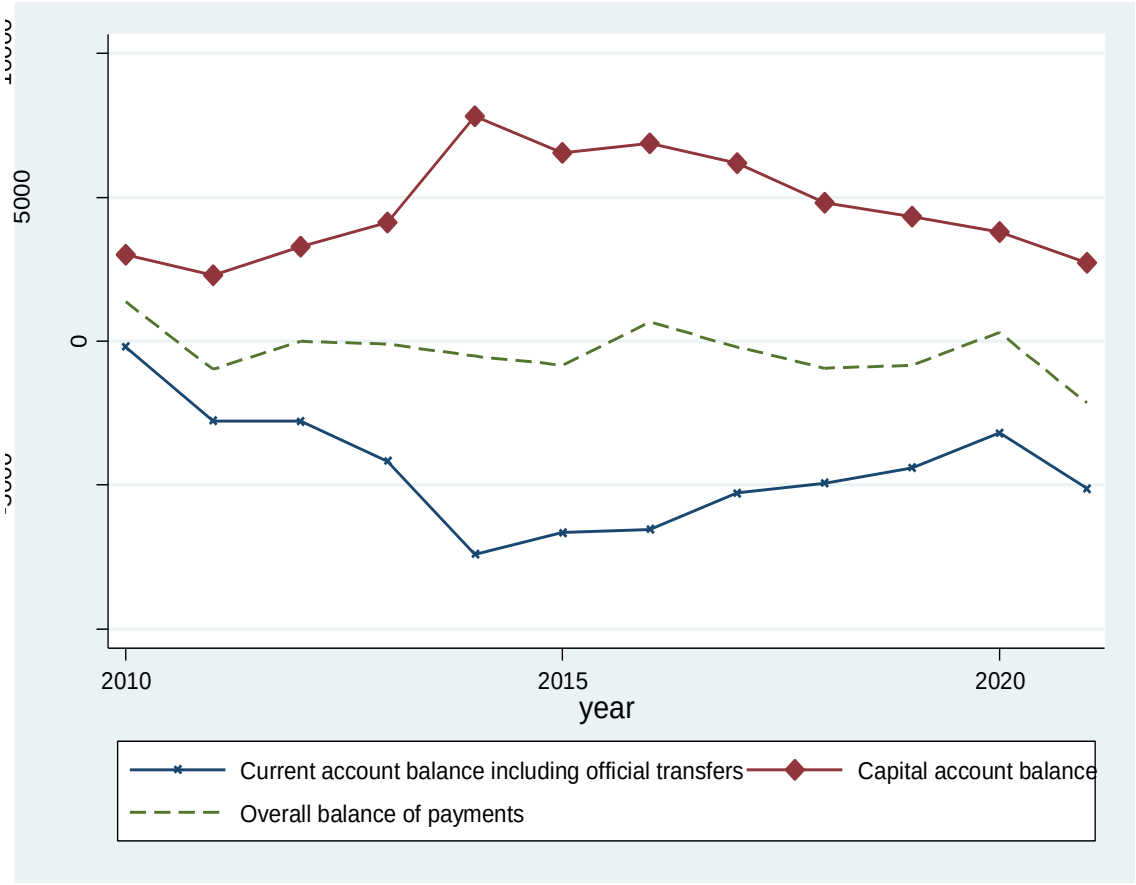
Source: author's calculation based on NBE (2022)

Ethiopia's exports have been increasing steadily over time, growing from USD 5343.1 million in 2010/11 to USD 10,460 million in 2020/21. However, it is important to note that imports have

also been increasing rapidly, growing from USD 10,160.7 million in 2010/11 to USD 23,809.3 million in 2020/21. This high level of imports has contributed to the country's persistent trade deficit.

Additionally, the current account balance, which includes official transfers, has been negative most of the years, indicating that the country has been spending more on imports than it has been earning through exports. However, the capital account balance has been positive, indicating that there have been more inflows of foreign investment into the country than outflows of domestic investment to other countries. Overall, the overall balance of payments has fluctuated over the years, with some years showing a surplus while others show a deficit. In the final year reported, 2021/22, there was a significant deficit which could potentially raise concerns about the country's ability to service its external debts.

Figure 5: Account balance of Ethiopia (2010/11- 2021/22)

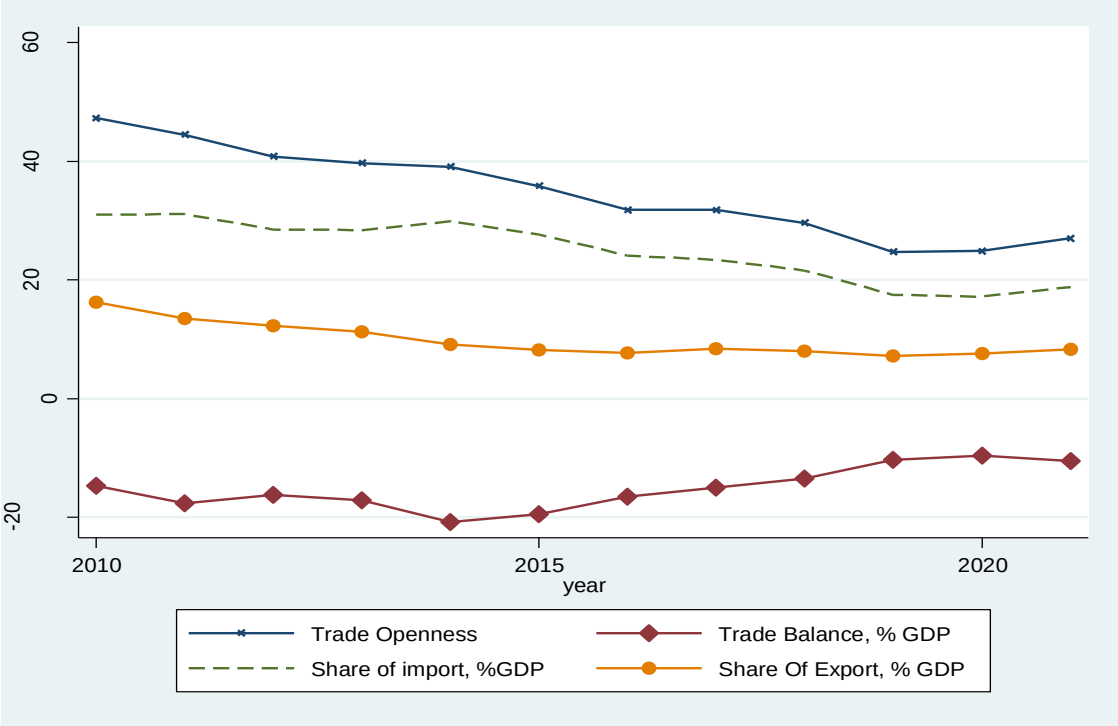


Source: Author's calculation based on NBE (2022)

It is also worth noting that Ethiopia's trade openness has been declining over time, falling from 47.3% in 2010/11 to 27% in 2021/22. This may reflect a decrease in the country's ability to compete in the global market and government actions in addressing economic imbalances. Throughout the period, Ethiopia's trade balance as a percentage of GDP has remained negative, with figures ranging from -14.7% in 2010/11 to -10.5% in 2021/22. From 2010/11 to 2014/15, the negative trade balance percentage of GDP showed an increasing trend. However, starting from 2015/16, there has been some improvement due to reduction in import.

The share of imports to GDP has been decreasing over the years. In 2010/11, it was at 31%, and it gradually declined to 17.2% in 2020/21 before increasing slightly to 18.8% in 2021/22. On the other hand, the share of exports to GDP has been relatively low throughout the years, and shows declining trend from 16.3% in 2010/11 to 8.3% in 2021/22.

Figure 6: Trade Openness and trade balance (2010/11- 2021/22)



Source: author's calculation based on NBE (2022)

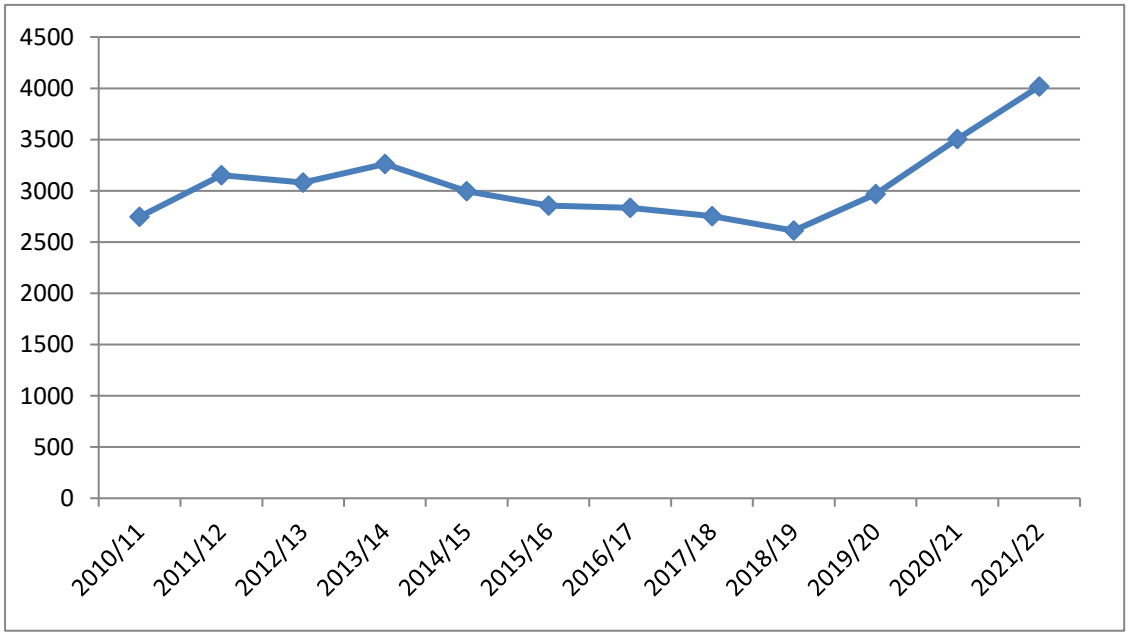
Overall, Ethiopia's trade balance divergence has been a challenge, with the country facing persistent trade deficits and a negative trade balance as a percentage of GDP. While the growth in exports is positive, efforts are needed to address the high levels of imports and improve competitiveness in the global market to support a sustainable improvement in the trade balance. The differences over time in the values of import and export of goods and services, as well as the

net trade in goods and services, reflect the dynamic nature of international trade and its susceptibility to a wide range of economic and political factors.

From 2010/11 to 2012/13, there was a slight increase in total merchandise exports, reaching a peak of 3,152.7 million USD in 2011/12. However, from 2012/13 to 2014/15, there was a decline in exports, with the lowest value recorded at 2,996 million USD in 2014/15. In the subsequent years, from 2015/16 to 2019/20, there was a fluctuating trend in merchandise exports. The values ranged from 2,856.7 million USD in 2015/16 to 2,967.6 million USD in 2019/20.

However, starting from 2020/21, there was a significant increase in merchandise exports, reaching 3,506.2 million USD. This growth continued into 2021/22, with exports further rising to 4,017.1 million USD. The average yearly growth rate of Ethiopian merchandise exports over the given period is approximately 3.9 %. This means that, on average, Ethiopian merchandise exports grew by around 3.9 % per year during the analysed timeframe. These recent increases suggest a positive momentum in Ethiopian merchandise exports and Ethiopia's economy is growing and becoming more integrated into the global market.

Figure 7: Trends of Merchandize Export (2010/11- 2021/22)



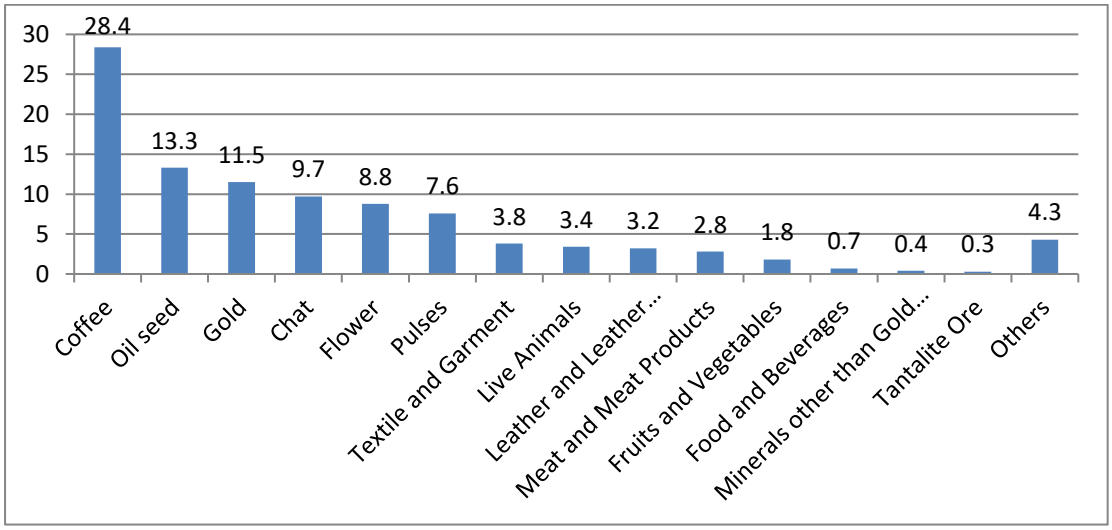
Source: Author's calculation based on ECC (2010/11- 2021/22)

Ethiopia's export items have shown diverse trends in their share of total exports over the analysed period. Coffee and oilseeds have consistently maintained significant shares, with coffee experiencing a notable increase in recent years. Other products such as Khat, flowers, leather, meat, and fruits and vegetables have demonstrated relatively stable shares without significant

upward or downward trends. Conversely, gold exports have experienced fluctuations but showed a decreasing trend in recent years. Live animals, minerals other than gold and tantalum, and food and beverages have consistently had lower shares throughout the analysed period.

Figure 8 shows the 12-year average share of Ethiopian export items. Coffee, gold, oilseed, Khat, flower, and pulses remain the key export items for Ethiopia, contributing significantly to the country's export earnings. The other export items on the list, including fruits and vegetables, textile and garment, meat and meat products, leather and leather products, and minerals other than gold and tantalum, have smaller shares compared to the top categories mentioned above.

Figure 8: Share of Ethiopian export item



Source: Author's calculation based on ECC (2010/11- 2021/22)

We have conducted an analysis of the performance of various Ethiopian export categories and items from the period of 2010/11 to 2021/22. This analysis is divided into two sections. In the first section, we have presented and examined the export performance in terms of value, volume, price, and their contribution to the total commodity export. The second section focuses on analysing the destination of Ethiopia's exports, as well as their competitiveness and diversification. The categories included in our analysis encompass Khat, Coffee, Flower, Food and Beverages, Fruits and Vegetables, Gold, Leather and Leather Products, Live Animals, Meat and Meat Products, Oil Seed, Pulses, Textile, and Garment.

4.2. Performance of Ethiopian Merchandize Export

4.2.1. Performance of Coffee

Ethiopia is renowned for its coffee production and is one of the largest coffee exporters in Africa. Coffee has a long history in Ethiopia, and the country is often considered the birthplace of coffee. Ethiopian coffee exports are primarily composed of high-quality Arabica coffee beans. The coffee is grown in various regions across the country, including Sidama, Yirgacheffe, Harrar, and Limu, each known for producing distinct flavour profiles.

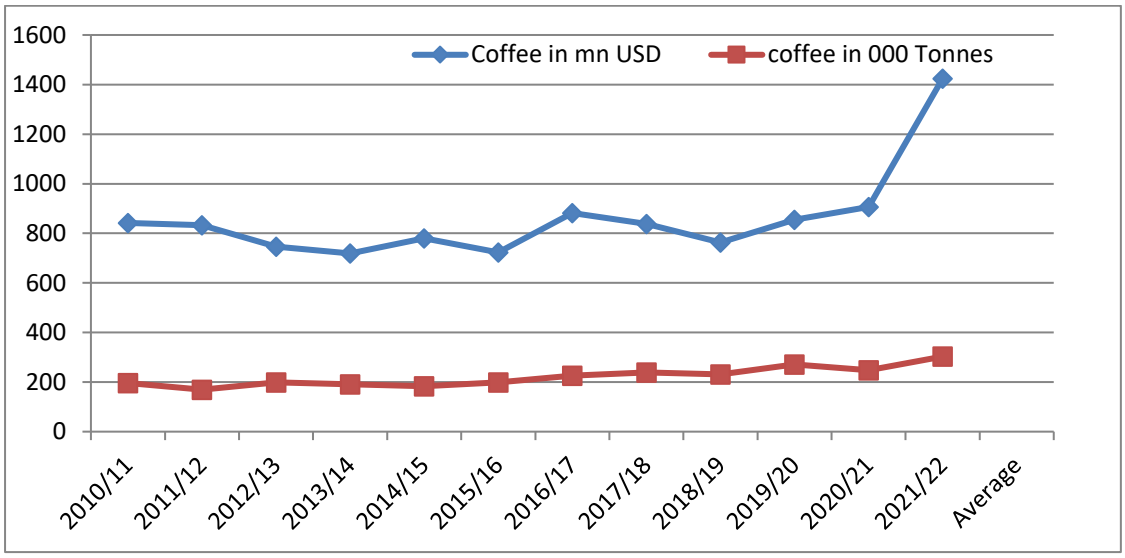
The Ethiopian government plays a significant role in the coffee industry through the Ethiopian Coffee and Tea Authority (ECTA). ECTA oversees the marketing, quality control, and exportation of coffee from Ethiopia. It also ensures that coffee farmers receive fair prices for their produce. To maintain the quality and reputation of Ethiopian coffee, the government has implemented strict regulations. For instance, coffee exports must meet specific grading standards, such as size, moisture content, and defect levels. Additionally, Ethiopia has established geographical indications (GI) for certain coffee regions, protecting their names and ensuring consumers can identify authentic Ethiopian coffee.

The trend for coffee in the Ethiopian merchandise export portfolio shows that it is the top exported commodity and an important source of foreign exchange earnings for Ethiopia. The export value of coffee has been fluctuating over the years but has steadily increased, indicating a growing demand for Ethiopian coffee in the global market.

Starting at 830.2 million USD in 2010/11, the export value of coffee has increased to reach a peak of 1424.6 million USD in 2021/22, representing average growth rate of 6.3% over the past decade. Mostly coffee experienced negative growth rates until 2017/18 when it began to increase. The highest growth rate of 57.1% was recorded in 2021/22 due to increase international prices.

Coffee exports show a mixed trend in terms of volume, with some years recording positive growth rates while others showing negative growth rates. For example, between 2012/13 and 2013/14, coffee exports had a positive growth rate of 17.5% and 4.1%, respectively. However, the growth rate declined in the following years until 2016/17 when it increased by 13.6%. Although the growth rate has been mostly positive since then, there was a significant decline of 8.3% in 2020/21. This indicates that although coffee is one of Ethiopia's major exports, there are still challenges in this sector that need to be addressed. Overall, the trend of coffee export volumes appears to be generally increasing, with some minor setbacks in a few years, over all representing an average growth of 4.6%.

Figure 9: Value (millions of USD) and volume (000 of tonnes) of Coffee export (2010/11-2021/22)



Source: Author's calculation based on ECC (2010/11- 2021/22)

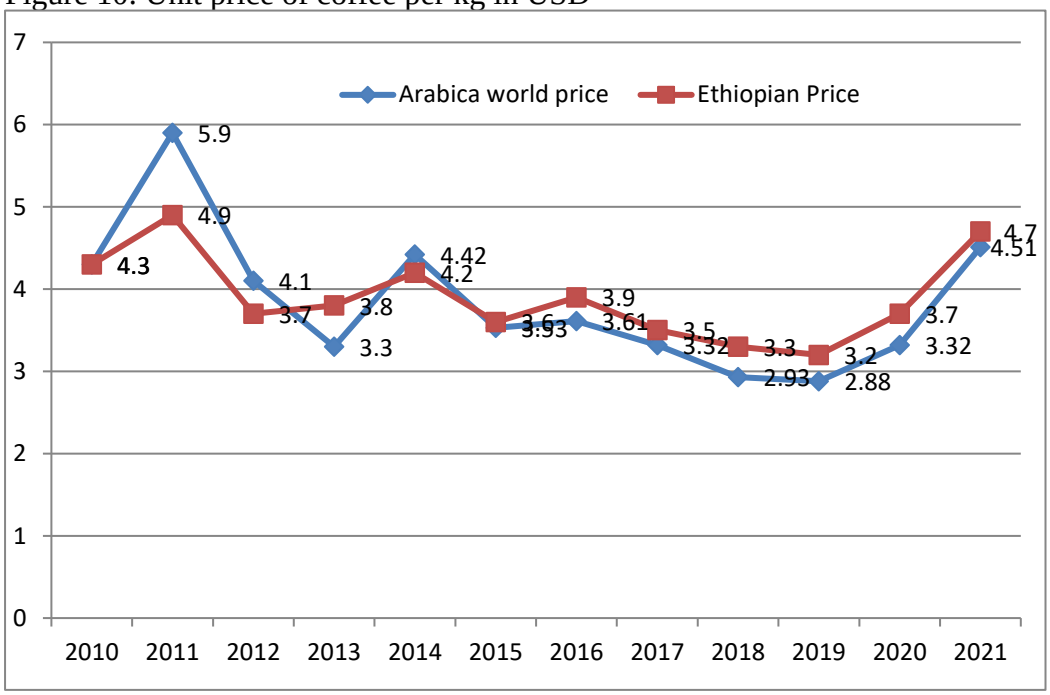
One possible explanation for recently steady growth in coffee exports is the high quality of Ethiopian coffee, which is known for its distinctive flavour profile and is highly sought after by coffee connoisseurs. Additionally, the Ethiopian government has implemented policies and initiatives to support coffee production and export, such as the Coffee Quality Improvement Program (CQIP) and price stability measures for coffee producers to ensure that they receive fair prices for their crops. One such measure is the minimum price guarantee, which sets a floor price for coffee exports.

According to a questionnaire survey conducted with coffee exporters, the Ethiopian coffee sector is confronted with several challenges in relation to production, investment, and trade facilitation. The production aspect is particularly affected by climate change, pests, diseases, limited access to finance, and inadequate technology. Exporters also emphasize issues concerning investment in coffee production, such as unstable political or social conditions, ineffective policy management by the local government, and complex administrative procedures for obtaining permits. Moreover, time-consuming customs procedures and an unclear inspection system further exacerbate these difficulties. It is important to note that these obstacles have the potential to impact the future of coffee production and export. Nevertheless, despite these challenges, coffee continues to be a valuable and competitive commodity for Ethiopia's economy.

The coffee sector has experienced significant volatility in its unit prices, fluctuating between large positive and negative changes, reaching a peak in 2011 and a low point in 2018/19. However,

recent data suggests that it is recuperating somewhat and displaying an overall marginal increase in its unit price trend since 2011/12. The changes in prices indicate that the global market for Arabica coffee is influenced by various factors such as supply and demand, weather conditions, production levels, and economic factors. These factors can cause prices to rise or fall over time.

Figure 10: Unit price of coffee per kg in USD



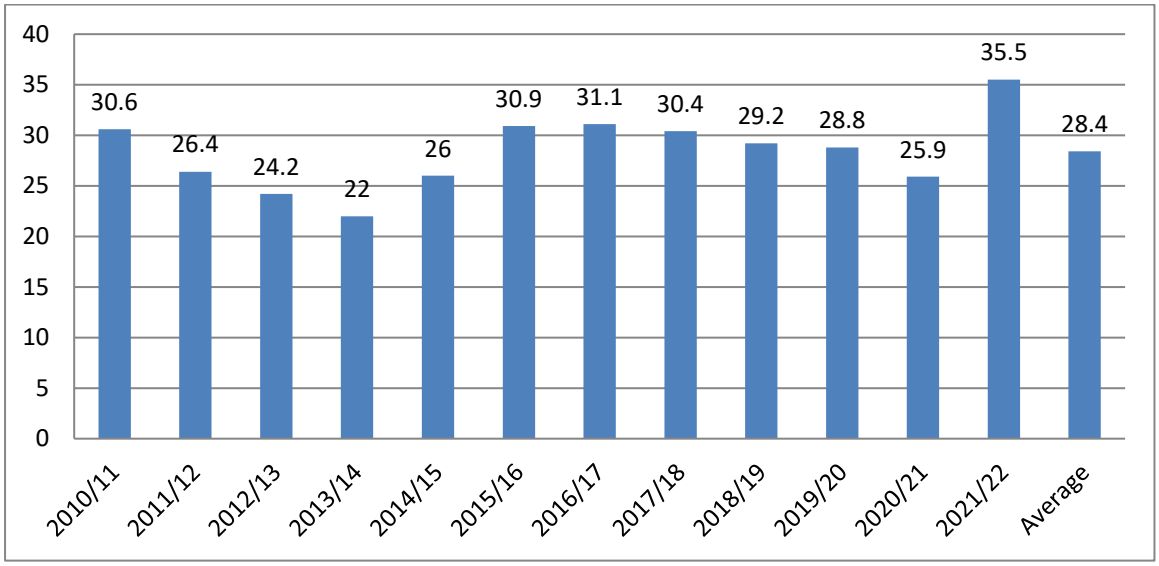
Source: Author's calculation based on ECC (2010/11- 2021/22)

The comparison between the Arabica world price and the Ethiopian price reveals some interesting trends. In most years, the Ethiopian export price tends to be higher than the world price, indicating unique market conditions or factors specific to Ethiopia such as coffee quality and branding. Both the Arabica world price and the Ethiopian price of coffee undergo fluctuations on an annual basis. However, the Arabica world price tends to exhibit more significant volatility compared to the relatively stable Ethiopian price. The stability observed in the Ethiopian price can be attributed to various factors such as local production and domestic regulations. For instance, the Ethiopian government implements measures like setting a floor export price and prohibiting the export of high-quality coffee for domestic consumption. These regulations may provide some level of protection against global market forces, thereby contributing to the stability of the Ethiopian price.

It is important to note that the Ethiopian price is influenced by the world price of Arabica coffee as a general trend. When the world price of Arabica coffee increases, the Ethiopian price tends to follow suit and increase as well. Conversely, when the world price experiences a decline, the

Ethiopian price also tends to decrease. This relationship highlights the interconnectedness of the global coffee market and emphasizes how changes in the world price can affect Ethiopian prices.

Figure 11: Coffee share to total merchandize export (2010/11- 2021/22)



Source: Author's calculation based on ECC (2010/11- 2021/22)

Coffee is also considered a strategic commodity for the country, as it is the largest export commodity and a significant source of foreign exchange earnings. The share of coffee exports to total merchandize export has shown some fluctuations but overall has maintained a significant share of total exports. The share of coffee exports ranged from 22.0% to 35.5% during the analysed period. Notably, there was a significant increase in the share in 2021/22, reaching 35.5%. The average share of coffee exports is approximately 28.4%. The consistent and increasing share of coffee in Ethiopian exports indicates its strong position in the international market. It suggests that Ethiopia has a competitive advantage in coffee production and trade, which contributes significantly to the country's export earnings.

4.2.2. Performance of Oilseed Export

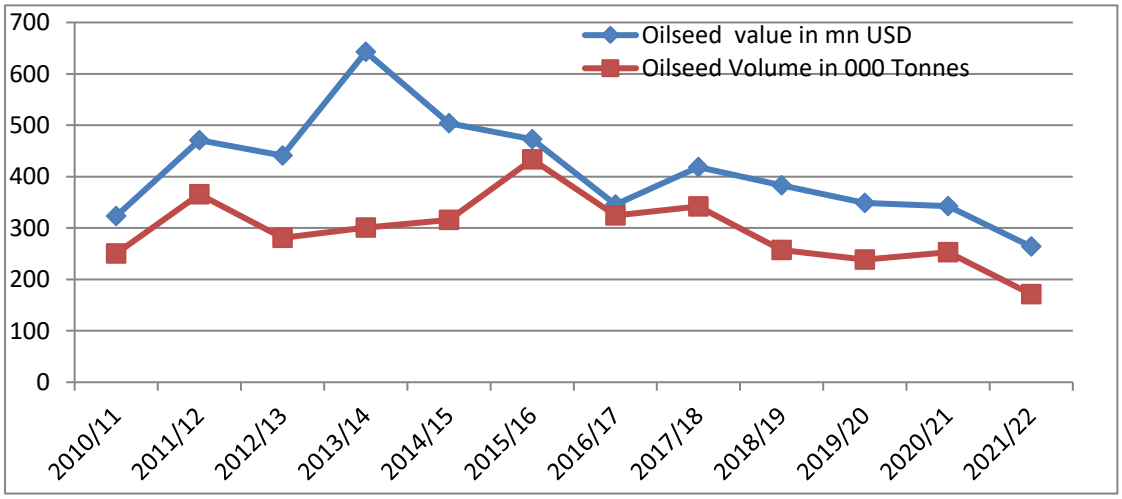
The oilseed sector in Ethiopia holds significant importance in terms of generating foreign exchange earnings and supporting the livelihoods of various market participants throughout the

value chain. Among the potential oilseed sector in Ethiopia are sesame seeds, niger seeds, sunflower seeds, linseeds, and castor beans[1].

The graph illustrates the export performance of oilseeds from Ethiopia over a 12-year period, spanning from 2010/11 to 2021/22. Throughout this timeframe, the total value of oilseed exports has exhibited fluctuations, ranging from $323.5 million in 2010/11 to $263.8 million in 2021/22. Notably, the average growth rate for oilseed exports stands at a mere 0.8%, indicating minimal change over the past decade.

In terms of volume, the export quantities of oilseeds initially displayed an upward trend for several years before experiencing a significant decline. Specifically, the volume dropped from 433.4 thousand tonnes in 2015/16 to 171.2 thousand tonnes in 2021/22. An intriguing observation is that starting from 2013/14, when the volume began to increase; the corresponding value of exports has been decreasing due to declining prices. Since 2015/16, both the value and volume of oilseed exports have decreased, despite some improvement in prices.

Figure 12: Value (millions of USD) and volume (000 of tonnes) of oilseed export (2010/11-2021/22)



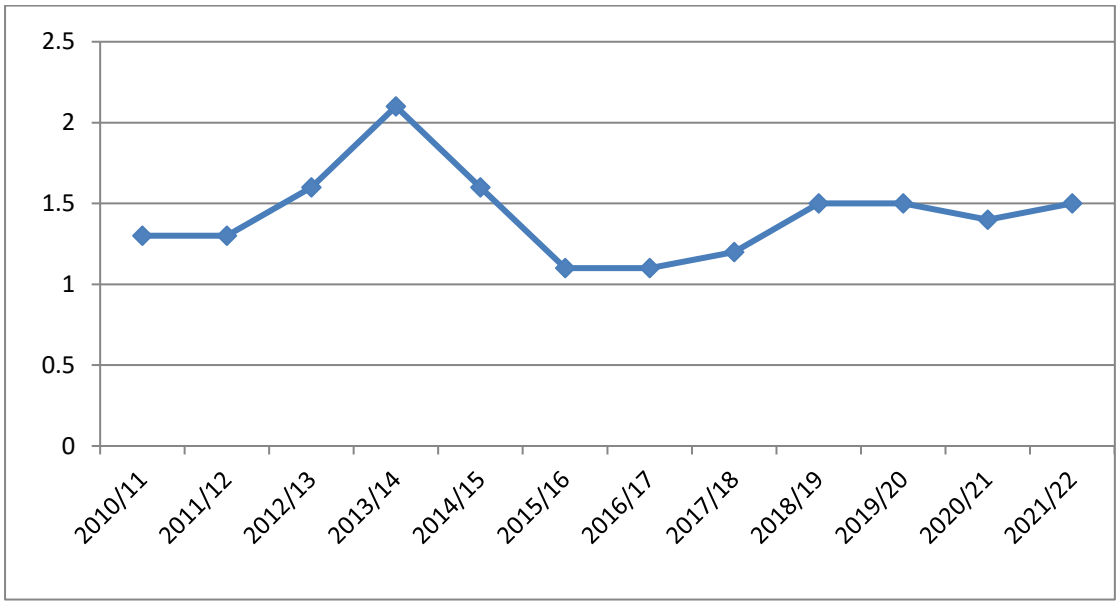
Source: Author's calculation based on ECC (2010/11- 2021/22)

The data on Ethiopian oilseed export unit prices in USD per kg from 2010/11 to 2021/22 shows a fluctuating trend. From 2010/11 to 2013/14, there was a steady increase in the unit price, with it rising from 1.3 USD per kg in 2010/11 to 2.1 USD per kg in 2013/14. This indicates a growing

[1] In international HS code classification, soybeans are categorized as oilseeds. However, it is worth noting that Ethiopia considers soybeans as a pulse crop. Therefore, in the context of this research, soybeans is treated and referred to pulses.

demand or higher value placed on Ethiopian oilseeds during this period. However, in the following years, from 2014/15 to 2016/17, there was a decline in the unit price, dropping to as low as 1.1 USD per kg in 2015/16 and 2016/17. This suggests a decrease in demand or possibly an oversupply of oilseeds and swift competition in the international market. From 2017/18 to 2019/20, there was a slight recovery in the unit price, gradually increasing from 1.2 USD per kg in 2017/18 to 1.5 USD per kg in 2018/19 and 2019/20. This indicates a stabilization or modest improvement in the value of Ethiopian oilseeds. In the most recent years, namely 2020/21 and 2021/22, the unit price remained relatively stable at around 1.4 USD per kg and 1.5 USD per kg, respectively. This suggests a continuation of the stabilized market conditions for Ethiopian oilseed exports.

Figure 13: Unit price of oilseed per kg in USD



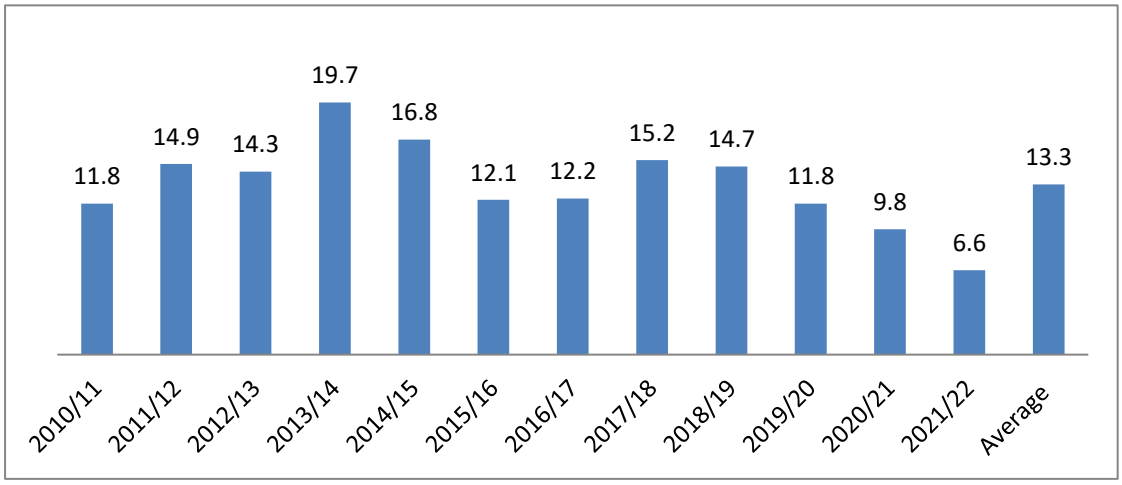
Source: Author's calculation based on ECC (2010/11- 2021/22)

Overall, the trend in the data suggests some volatility in the unit prices of Ethiopian oilseeds over the years, with periods of growth, decline, and subsequent stabilization. Factors such as global market dynamics, changes in supply and demand, and fluctuations in international trade could have contributed to these fluctuations in unit prices.

Oilseed exports have also shown high fluctuations in their share, but overall, there is a decreasing trend. The share declined from 19.7% in 2013/14 to 6.6% in 2021/22. Until the fiscal year 2018/19, it served as the second-largest contributor to the country's export earnings. However, starting from the fiscal year 2019/20, it dropped to the third position, with cut flowers taking its place as the second-largest contributor. The average share of Oilseed exports is approximately 13.3% over the study period. This implies that the country is highly dependent on oilseed exports

for revenue generation. Diversification of the export basket beyond oilseed could help reduce this dependency and enhance the resilience of the export sector. In general, a declining trend in the export performance of oil seeds from Ethiopia over the past 12 years can be attributed to several factors, including increasing competition from other countries in the region, fluctuating global demand and prices, and limited value addition through processing. Additionally, there are challenges related to logistics, high local prices, regulatory compliance, and quality control that need to be addressed to increase the competitiveness and sustainability of Ethiopia's oilseed export industry in the long term.

Figure 14: Oilseed share to total merchandize export (2010/11- 2021/22)



Source: Author's calculation based on ECC (2010/11- 2021/22)

Looking into different categories of oilseed item, the export value of Sesame (contributes more than 90% of oilseed export) demonstrates variations over the years, starting at 300.6 million USD in 2010/11 and showing an overall increasing trend until peaking at 618.3 million USD in 2013/14. However, there was a subsequent decline in export value from 2014/15 to 2016/17, followed by relative stability with minor fluctuations until 2019/20. In 2020/21, there was a decrease in export value to 288.3 million USD, followed by a further decline in 2021/22. The average export value for sesame over the entire period is 378.2 million USD. Overall, there is a mix of positive and negative growth rates throughout the period. The average annual change in earnings for sesame oilseed is 1.01 %, which indicates no big change in the sector.

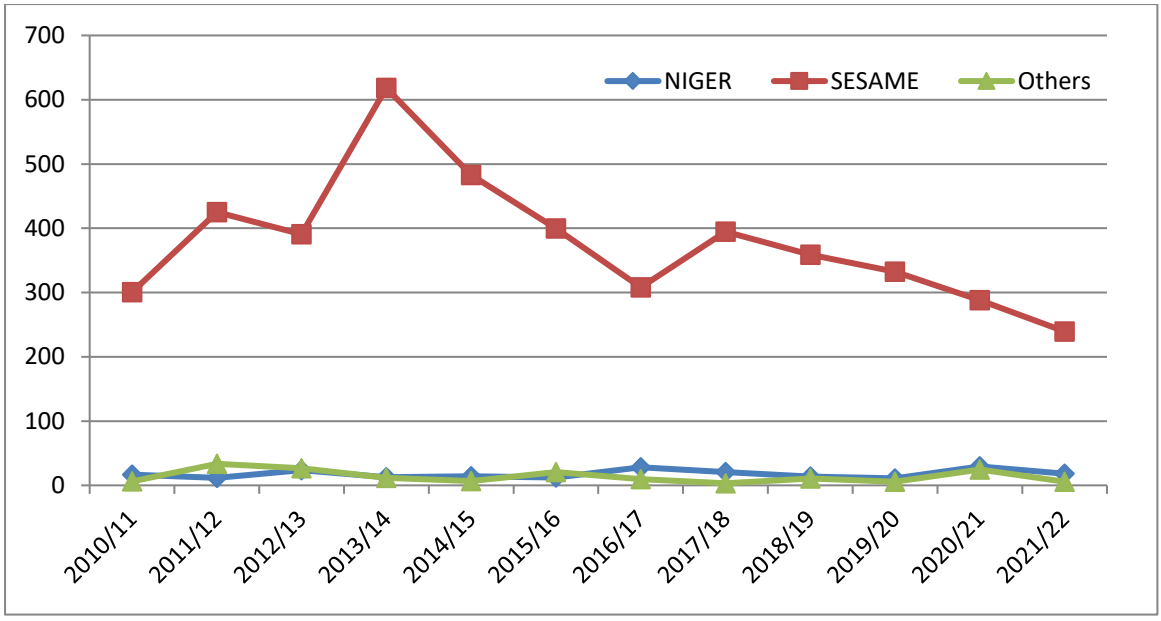
Similarly, the export value of niger oilseed exhibits fluctuations over the given period. It started at 16.5 million USD in 2010/11, experienced a decline in the following year, and then showed an upward trend from 2011/12 to 2013/14, reaching a peak of 23.6 million USD. However, there was a subsequent decrease in export value until 2015/16, after which it remained relatively stable

with minor oscillations until 2019/20. In 2020/21, there was a significant increase in export value to 29.4 million USD, followed by a slight decrease in 2021/22. These fluctuations indicate that the export value of niger oilseed is subject to significant variability over time. The periods of growth suggest potential market demand or favourable conditions for exports, while the periods of decline may be influenced by factors such as changes in global market dynamics, domestic production levels, or export policies.

Similarly, the change in earnings from niger oilseed also demonstrates significant fluctuations over the given period. In 2011/12, there was a substantial decrease of -28.28% in export revenue, followed by a sharp increase of 99.78% in 2012/13. The subsequent years witnessed alternating negative and positive growth rates, indicating an inconsistent trend. Notably, there were two notable peaks with high positive growth rates in 2016/17 (129.50%) and 2020/21 (169.10%), which shows potential to growth through its contribution to total oilseed export is not significant.

The export value of the "Others" category, which includes various oilseed items including caster seed, displays mixed trends. There are no clear patterns observed, as the value fluctuates irregularly throughout the years. There is a massive increase of 425.25% in 2011/12, followed by a sharp decline in 2012/13. Similarly, from 2013/14 to 2014/15, there is a notable decrease in growth rates. However, from 2015/16 to 2018/19, there are substantial positive growth rates indicating increased export revenue. The subsequent years witness high negative growth rates, particularly in 2020/21 (-76.11%) and a positive growth in 2021/22 (330.70%). On average, the annual change in earnings for the "Others" category stands at 75.12% with the average export value over the entire period is 13.8 million of USD, which shows there is a potential for diversification of oilseed items.

Figure 15: Value of oilseed items in Millions of USD (2010/11- 2021/22)



Source: Author's calculation based on ECC (2010/11- 2021/22)

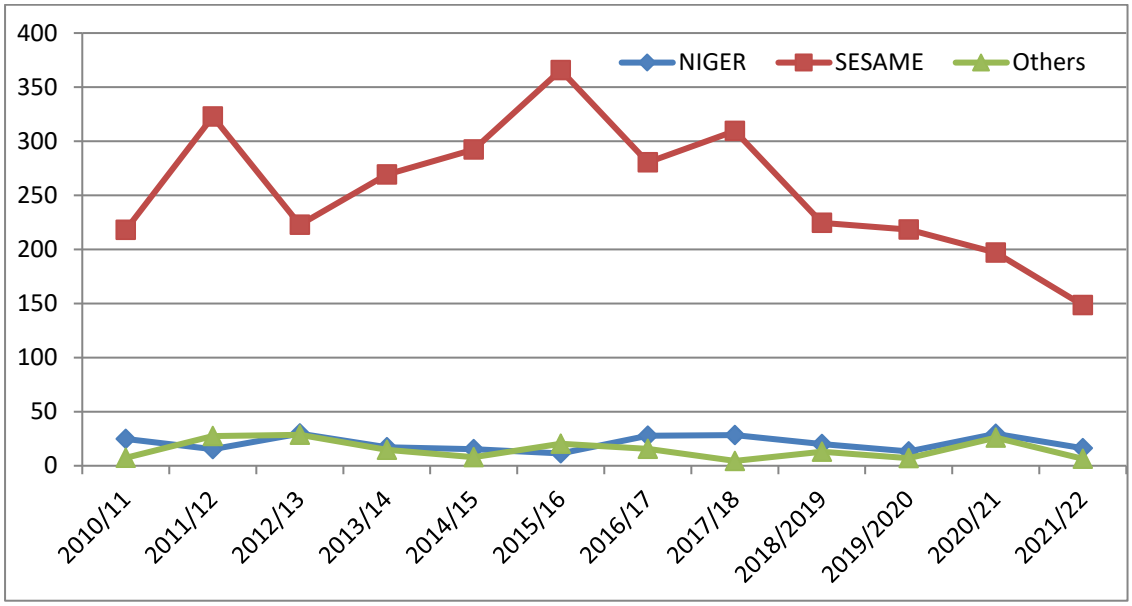
In general, the mixed positive and negative growth rates in earnings from sesame oilseed highlight a relatively unstable market for this commodity. The decline in growth rates over consecutive years indicates potential challenges faced by the industry, such as competition from other sesame-producing countries shifts in market demand, limited capacity of domestic production, internal security issues. However, occasional positive growth rates show that there are still opportunities for export revenue growth in the sesame oilseed sector, albeit with some volatility. Similarly, the export value and earnings from niger oilseed exhibit fluctuations and volatility, experiencing periods of growth well as decline. However, when considering some year's very astonishing growth rate, it suggests a promising potential for expansion. This underscores the importance of gaining a comprehensive understanding of market dynamics and implementing effective strategies to successfully navigate the ever-changing conditions in the niger oilseed export market.

In terms of volume, we observe the same fluctuation like that of value. There were fluctuations in the volume of niger oilseed exports throughout the years. From 2010/11 to 2012/13, the volume increased from 24.9 thousand tonnes to 29.7 thousand tonnes, reflecting positive growth. However, there was a decline in the subsequent years, reaching a low of 11.4 thousand tonnes in 2015/16. The volume then experienced a significant increase in 2016/17, reaching 27.9 thousand tonnes, followed by a slight fluctuation in the remaining years. The average volume of niger export was around 20.7 thousand tonnes under the period. The average growth rate over the examined period is 12.4%, indicating some overall growth during this time. Sesame oilseed

exports show notable growth from 2012/13 to 2015/16. However, the trend exhibits a more consistent declining pattern starting from 2015/16.

For the "Others" category, which represents other types of oilseeds, the volume shows variability with no clear upward or downward trend. The highest recorded volume was in 2011/12 at 27.6 thousand tonnes, while the lowest was in 2021/22 at 6.3 thousand tonnes. Throughout the years, the volume fluctuated between these extremes without any distinct pattern. The growth rates in this category demonstrate a high degree of volatility and lack of stability.

Figure 16: Volume of oilseed items in thousands of tonnes (2010/11- 2021/22)



Source: Author's calculation based on ECC (2010/11- 2021/22)

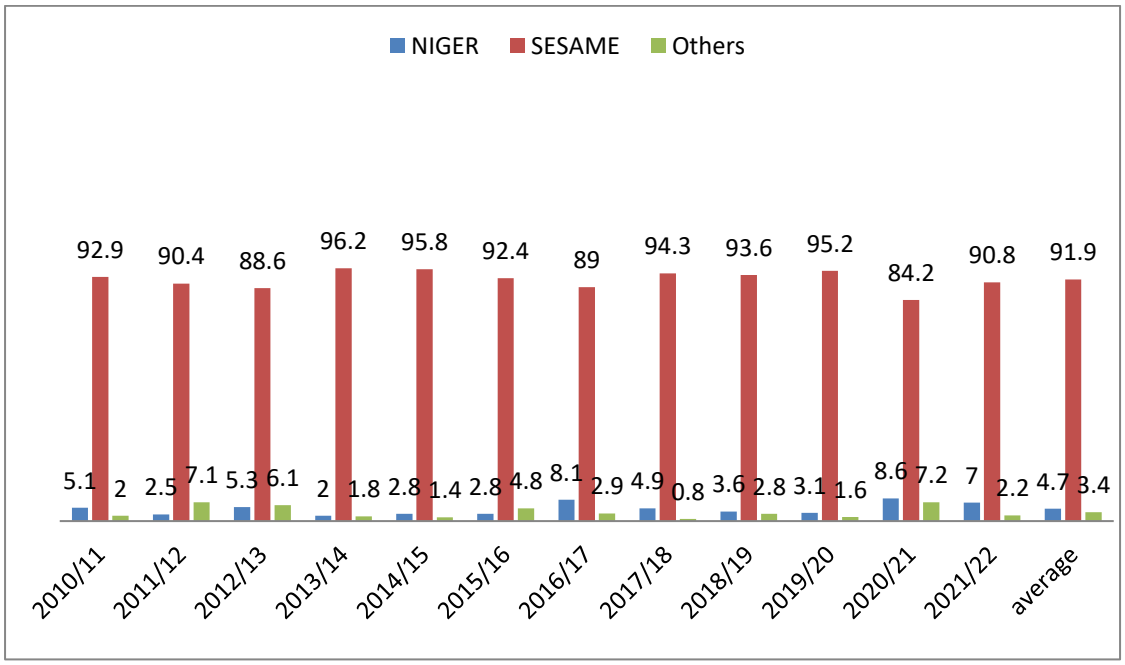
Share of oilseed items to oilseed export

The table provided presents the trends in the share of Ethiopian oilseed exports for different items over a period of several years. Analysing and interpreting these trends can provide valuable insights into the performance and fluctuations of each item.

Beginning with the first item sesame, which represents the majority share throughout the analysed period, we observe a relatively consistent trend. With a starting point of 92.9% in 2010/11, the share experienced minor fluctuations around the high 80s and mid-90s present. It reached its lowest point of 84.2% in 2020/21 but recovered to 90.8% in 2021/22. On average, sesame constituted around 91.9% of Ethiopian oilseed exports, indicating its dominant position in this sector. The consistent and dominant share of sesame in Ethiopian oilseed exports indicates a heavy reliance on this particular item. This suggests that the Ethiopian economy may be highly

dependent on SESAME production and export revenues. Any fluctuations or disruptions in the sesame market could significantly impact the country's overall oilseed export performance.

Figure 17: Share of oilseed items in percentage (2010/11- 2021/22)



Source: Author's calculation based on ECC (2010/11- 2021/22)

Moving on to niger seed, its share of oilseed exports shows a mixed pattern throughout the years. Starting at 5.1% in 2010/11, it decreased to 2.5% in the following year. However, it experienced an upward trend from 2011/12 to 2013/14, reaching its highest point of 5.3%. Afterward, the share declined again until 2016/17. From 2016/17 onwards, there was a noticeable increase, peaking at 8.6% in 2020/21. In the most recent year, 2021/22, the share decreased slightly to 7.0%. On average, niger accounted for approximately 4.7% of Ethiopian oilseed exports. Lastly, the category "Others" shows a variable but comparatively smaller share. Starting at 2.0 % in 2010/11, it exhibited significant fluctuations over the years, with highs of 7.2% in 2020/21 and lows of 0.8% in 2017/18. On average, "Others" accounted for approximately 3.4% of Ethiopian oilseed exports.

The changing shares across different years suggest that the demand for specific oilseed items might vary over time. Understanding these market dynamics is crucial for policymakers and stakeholders involved in the oilseed sector. It highlights the importance of adapting strategies to align with evolving market preferences and to capitalize on emerging opportunities. The fluctuating shares of niger and "Others" present opportunities for diversification within the oilseed sector. As niger experienced periods of growth and decline, it indicates the potential for expanding its market presence and capturing a larger share of oilseed exports with targeted strategies.

Similarly, the category "Others" represents various oilseed items that can be explored further to enhance their competitiveness and contribute more significantly to Ethiopian exports.

The dominance of niger in Ethiopian oilseed exports provides stability in terms of a reliable market and established trade relationships. However, reducing the dependency on a single item and diversifying the export portfolio can help mitigate risks associated with price volatility, market fluctuations, or changes in international trade policies affecting sesame. The trends also underscore the importance of closely monitoring market conditions and adapting strategies accordingly. Understanding shifts in demand, identifying emerging opportunities, and diversifying the range of oilseed exports can help Ethiopian producers and exporters navigate market dynamics and maximize their competitiveness in the global oilseed trade.

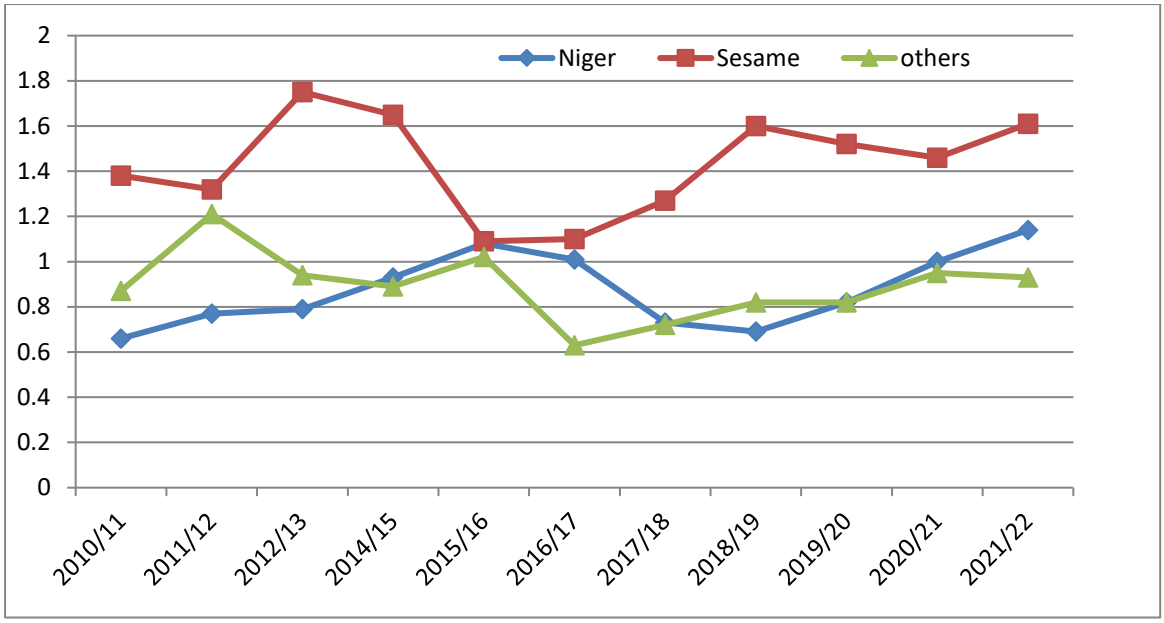
In conclusion, the observed trends imply the need for a balanced approach to the Ethiopian oilseed sector. While maintaining and strengthening SESAME export performance, there is an opportunity to diversify and expand the market share of other oilseed items. This strategy can help reduce dependency on a single item, enhance export stability, and tap into evolving market dynamics for sustained growth in the sector.

Unit price of oilseed items

The table presents trends in the unit prices of Ethiopian oilseed export items, measured in USD per kilogram, over a period of several years. Analysing the trends, we observe varying unit prices for each oilseed category throughout the years.

For niger oilseed exports, the unit price shows fluctuations but without a clear trend. The prices ranged from a low of $0.66 per kilogram in 2010/11 to a high of $1.14 per kilogram in 2021/22. The average unit price over the examined period was $0.87 per kilogram. The average price change percentage over the examined period was 6.3%. These fluctuations indicate that the unit prices of NIGER oilseeds experienced varying levels of volatility without a clear upward or downward trend.

Figure 18: Unit prices of oilseed items per kg USD (2010/11- 2021/22)



Source: Author's calculation based on ECC (2010/11- 2021/22)

In the case of sesame oilseed exports, the unit prices also display variability. The prices started at $1.38 per kilogram in 2010/11, reached a peak of $2.30 per kilogram in 2013/14, and then experienced fluctuations in subsequent years. The average unit price over the examined period was $1.50 per kilogram. The average price change percentage over the examined period was 3.8%. While there are fluctuations, the overall average percentage change indicates a moderate level of price variability.

Regarding the "Others" category, which represents other types of oilseeds, the unit prices exhibit some fluctuations as well. Prices ranged from a low of $0.63 per kilogram in 2016/17 to a high of $1.21 per kilogram in 2011/12. The average unit price over the examined period was $0.88 per kilogram. Similar to the other categories, the unit prices in the "Others" category did not exhibit a consistent upward or downward trend.

The trends in Ethiopian oilseed export unit prices imply several key points. The fluctuations and variations in unit prices suggest that the market for Ethiopian oilseeds is sensitive to changes in supply and demand dynamics. Market conditions, including global demand, competition, and production levels, can influence the prices of oilseed exports. Exporters need to closely monitor these factors and adjust their pricing strategies accordingly.

The differences in unit prices among oilseed categories indicate variations in quality, market demand, and perceived value. This highlights the importance of maintaining quality standards and meeting market requirements to command higher prices. Unit prices directly impact the

profitability of oilseed exports. Higher prices can result in increased revenue for exporters, while lower prices may put pressure on profitability. Understanding and managing cost structures, productivity levels, and market competitiveness are crucial for exporters to achieve sustainable profitability despite price fluctuations.

Overall, the trends in Ethiopian oilseed export unit prices underscore the need for exporters to carefully monitor market conditions, focus on quality, and strategically position their products. Adapting to changing market dynamics, exploring value addition opportunities, and maintaining cost competitiveness can enable exporters to navigate price fluctuations and optimize their profitability in the global oilseed trade.

4.2.3. Performance of Gold Export

The mining industry in Ethiopia is heavily dependent on the export of gold, which constitutes over 90% of its foreign currency earnings (Molla and Gebrewelde, 2021). Gold mining plays a significant role in the country's export earnings, ranking third and contributing an average of 11.5% to the total export earnings since 2010.

The mining sector of Ethiopia heavily relies on gold export earnings, which account for more than 90 % of its foreign currency earnings (Molla and Gebrewelde, 2021). It also contributes to export earnings from gold ranks 3rd and contributes to an average of 11.5% to the country's total export earnings since 2010. The gold mining industry in Ethiopia derives its source from two main sectors i.e. the modern large-scale[2] mining industry and the artisanal small-scale gold mining sector.

Looking at the figure 20, we can see that Ethiopia exported gold worth 461.7 million US dollars in 2010/11, and this figure increased to 602.4 million US dollars in 2011/12. However, the export of gold dropped significantly in the following years, reaching a low of 27.9 million US dollars in 2018/19. In the year 2019/20, there was a significant increase in the export of gold, with exports reaching 196.5 million US dollars. This trend continued in 2020/21, where gold exports reached 651.6 million US dollars, which is the highest value recorded for gold exports in the past decade. Similar trend also observed in volume of gold export.

[2] According to Ethiopian Extractive Industries Transparency Initiative (EEITI) (2016), from 2011 to 2016, Midroc company contributed 38% of Gold export of Ethiopia.

Figure 19: Volume (000 of tonnes) of Gold Export (2010/11- 2021/22)

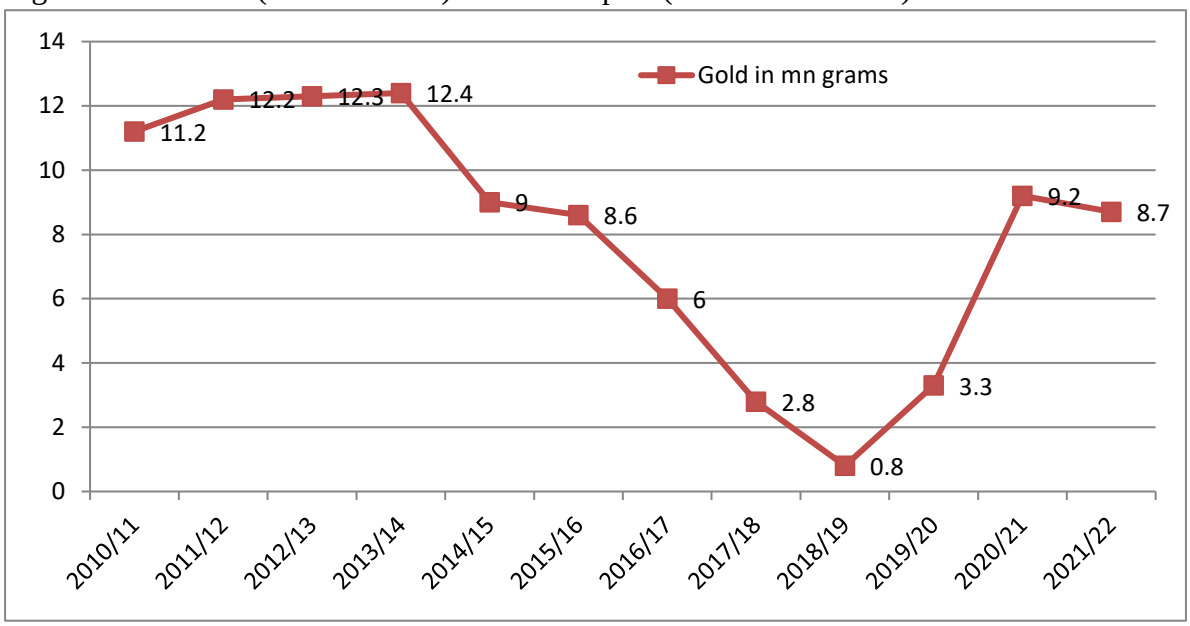
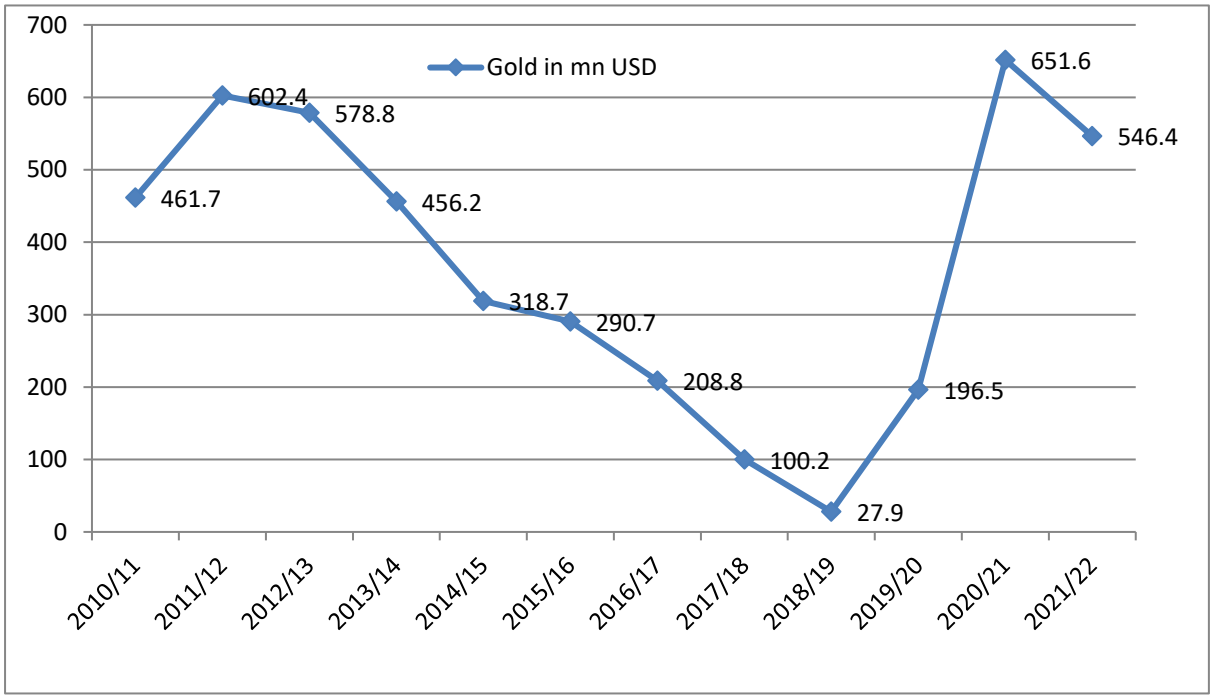


Figure 20: Value (millions of USD) of Gold Export (2010/11- 2021/22)



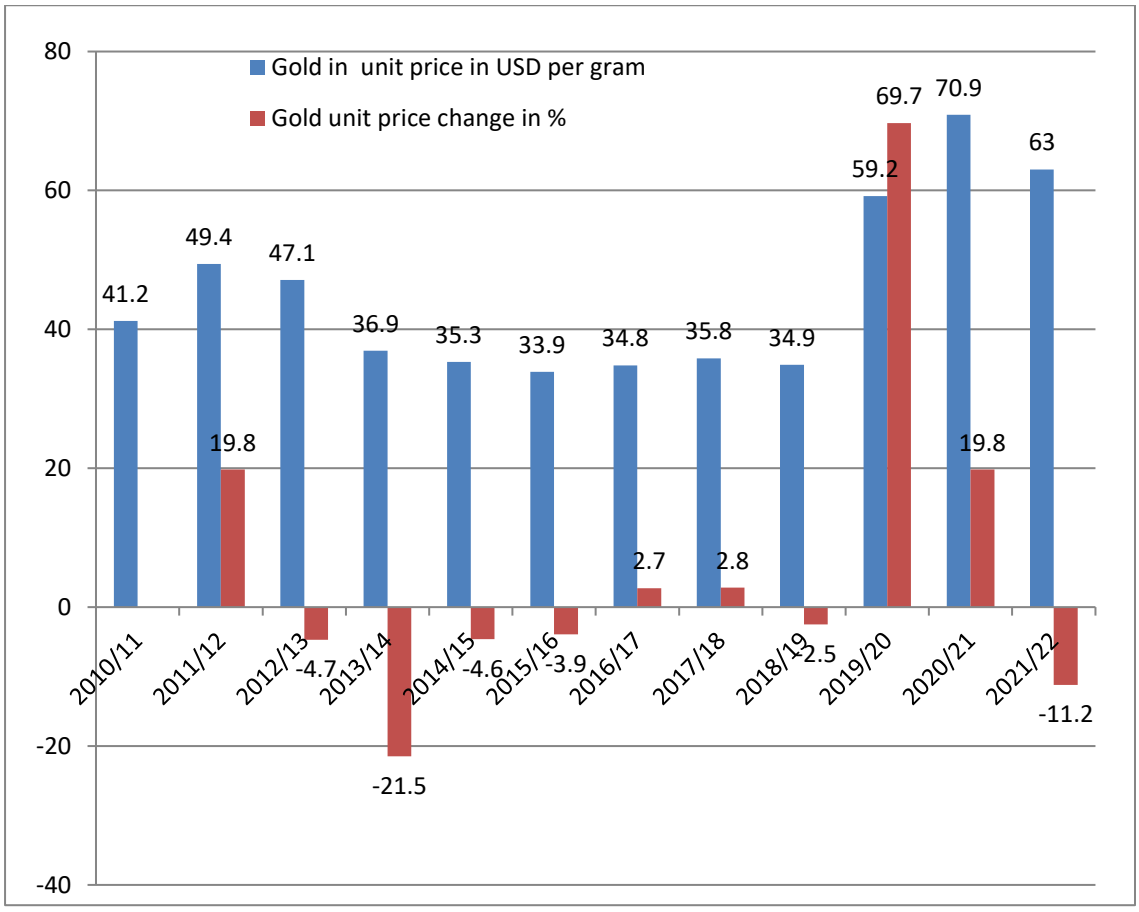
Source: Author's calculation based on ECC (2010/11- 2021/22)

Gold prices have shown notable volatility, with a steep increase in 2019/20 and a subsequent decrease in 2021/22 compared to the previous year. This may affect the supply side of gold and then the earning from the sector.

Gold exports have shown notable fluctuations in their share of total exports, which is a reflection of fluctuation in value and volume of products. The share ranged from 1.1% in 2017/18 to 19.1%

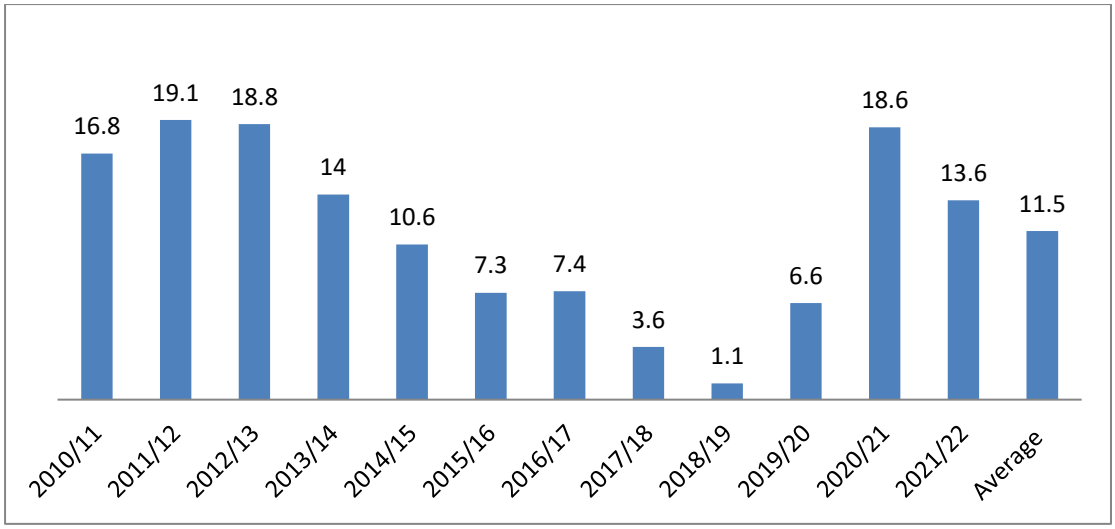
in 2011/12. From 2012/13 to 2018/19, there was a consistent decrease in the gold share. This decline cannot be attributed to a shift towards another sector; instead, it reflects a continuous decline in both the value and volume of gold exports. The average share of gold exports is approximately 11.5%. The fluctuating share of gold exports implies that its market conditions can vary over time. Factors such as global demand, prices, smuggling due to high exchange rate in parallel market, and mining activities can impact the export share of gold. It highlights the need for monitoring and managing fluctuations in the gold market to maximize export revenues.

Figure 21: Unit price of Gold in USD per kg



Source: Author's calculation based on ECC (2010/11- 2021/22)

Figure 22: Gold export share to total merchandize export (2010/11- 2021/22)

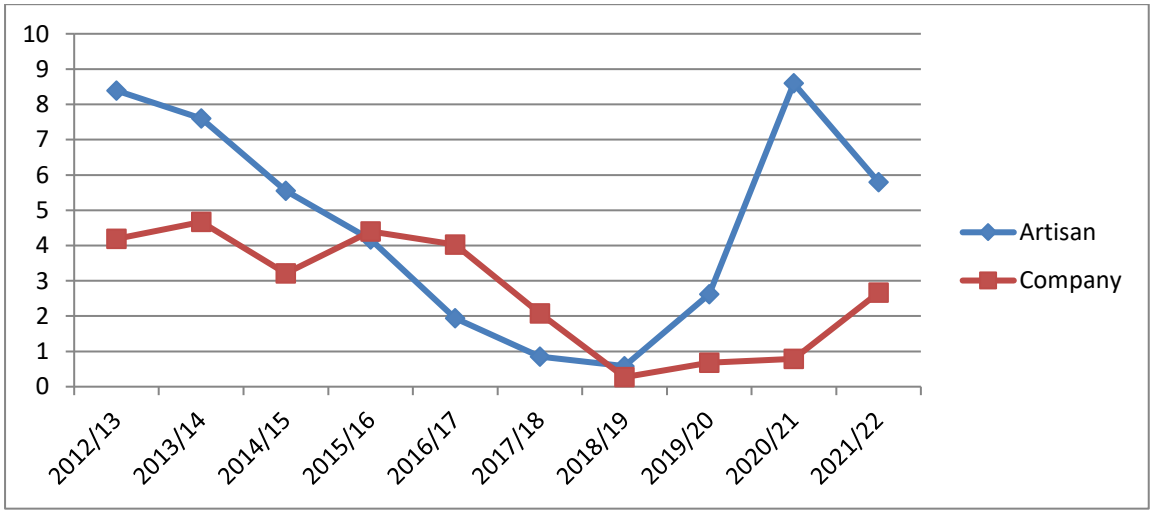


Source: Author's calculation based on ECC (2010/11- 2021/22)

Ethiopian gold production, marketing, and export face numerous challenges. As we see from the graph below, a significant portion of gold production in Ethiopia comes from artisanal and small-scale mining operations. These operations often lack proper equipment, technology, and safety measures, leading to low productivity and potential environmental damage.

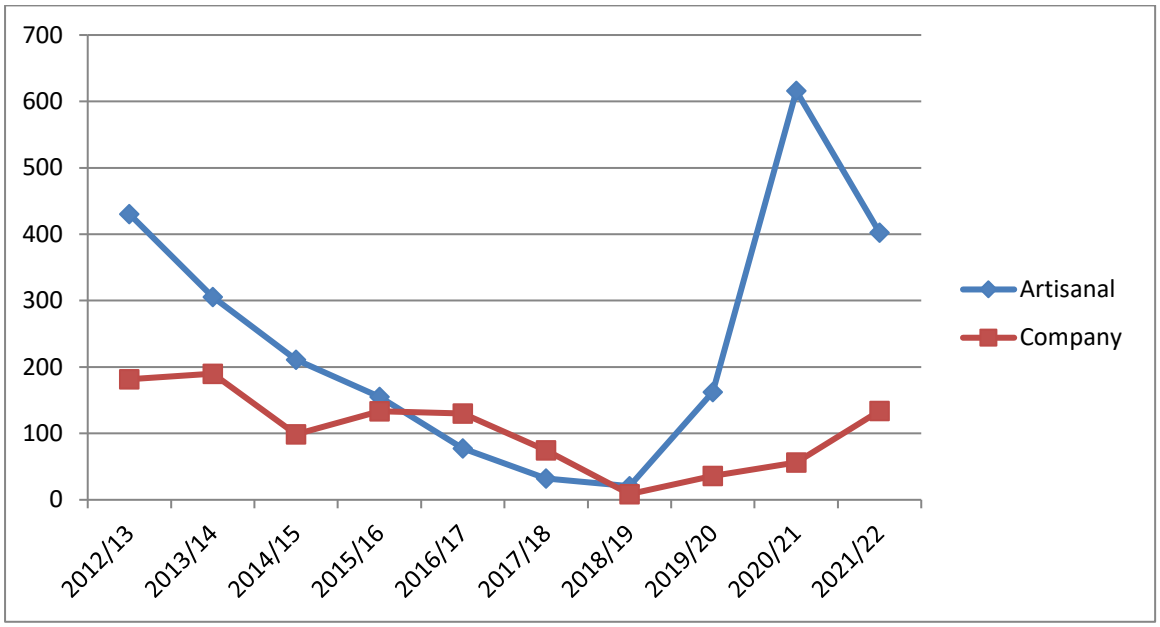
As observed, there was a consistent decline in the trend of gold production from 2012/13 to 2018/19. However, starting in 2018/19, there was a notable improvement in artisanal gold production. This can be attributed to government incentives provided to gold producers, efforts to bring artisanal producers into the legal framework, and the rise in international prices of gold.

Figure 23: Gold export volume by Artisans and company in million grams (2010/11- 2021/22)



Source: Ministry of Mines and NBE (2010/11- 2021/22)

Figure 24: Gold export by value by Artisans and company in millions USD (2010/11- 2021/22)



Source: Ministry of Mines and NBE (2010/11- 2021/22)

According to figure 24, the company's gold supply reached its peak at 4667.9 kg in fiscal year 2013/14, while hitting its lowest point at 270.31 kg in 2018/19. The company's performance was adversely affected in the fiscal year of 2018/19 due to suspension of production of Midroc Gold Company starting from May 01, 2010 as a result of environmental and health pollution problems. It took a considerable amount of time to study international standards, and Izana Gold Company faced challenges in meeting their expected gold production due to resource constraints (Ministry of Mining, 2022).

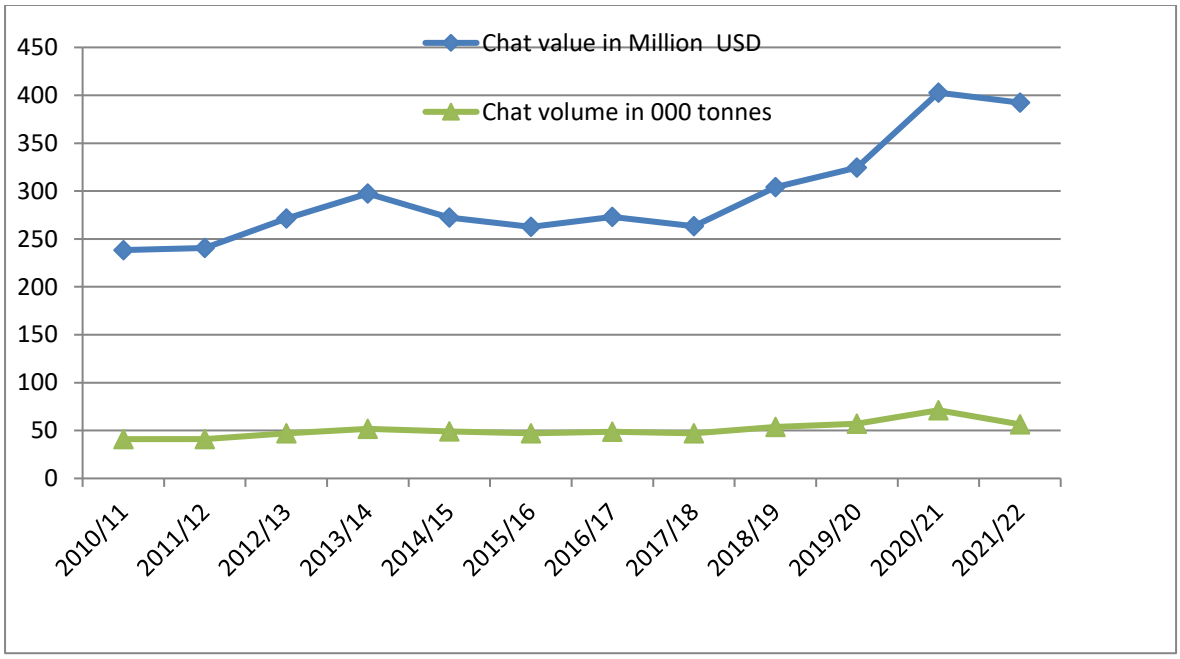
The disparity of foreign exchange between formal and parallel market also contributes for illegal mining activities and smuggling of gold pose significant challenges to the formal gold production and export sector. These activities not only result in revenue losses for the government but also undermine efforts to ensure responsible and sustainable mining practices. According to the EEITI report from 2016, approximately 39 % of the overall gold production is expected to be sold through the formal channel. This portion is purchased by the National Bank of Ethiopia specifically for export purposes. On the other hand, the remaining significant share, which accounts for 61 %, is estimated to be marketed through the informal channel. These gold sales typically find their way into local markets, and there is also a possibility that some of it may be exported through sales to tourists and foreign passengers and used to buy illegal or contraband goods.

Ownership disputes, royalty payment issues, and tax complications often arise due to the intricate legal framework and inconsistent policy interventions governing the production and export of gold. Additionally, security concerns in remote and vulnerable regions pose risks in production of gold. Overall, the data indicates that the export of gold has been unpredictable in Ethiopia over the past twelve years, with fluctuations in both value and volume. However, the past records show that the country's gold mining industry has the potential for growth and development in the future.

4.2.4. Performance of Khat

Ethiopia has favourable agro-ecological conditions for khat cultivation, particularly in south eastern parts of the country. Currently, Ethiopia is the leading khat producer worldwide with a growing demand for its leaves in home and neighbouring countries like Djibouti and Somalia and to some extent in Israel. However, it's important to note that khat consumption and trade are subject to various regulations and restrictions in different countries due to its psychoactive properties. Some countries have banned or restricted its importation and sale, which can impact Ethiopia's khat export performance. Before it has been surpassed by flower since 2019/20, khat was ranked the 4th main contributor of Ethiopian merchandize export.

Figure 25: Value (millions of USD) and volume (000 of tonnes) of khat export (2010/11- 2021/22)



Source: Author's calculation based on ECC (2010/11- 2021/22)

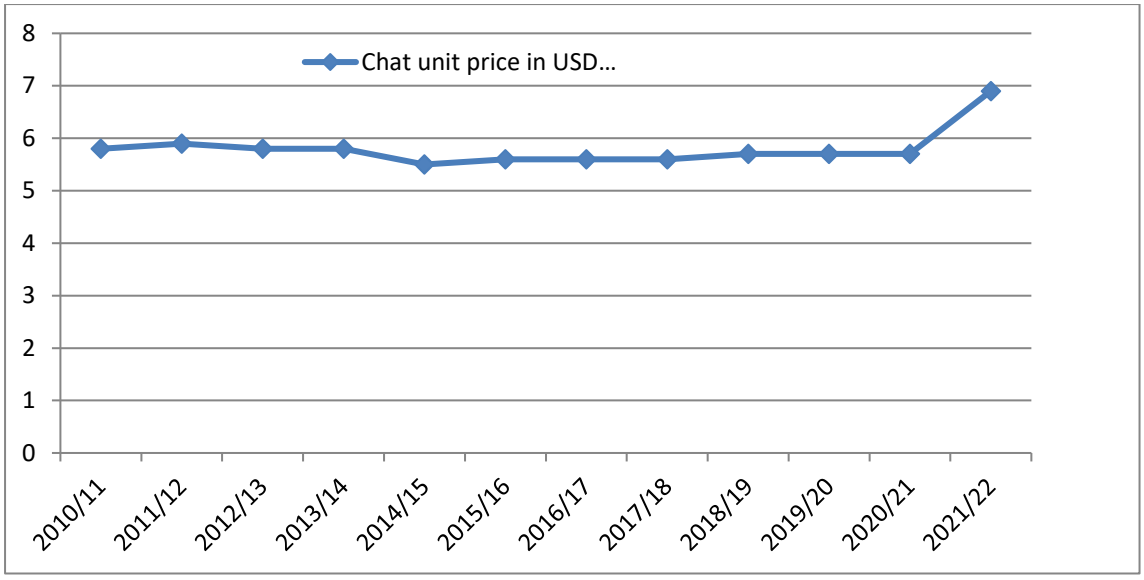
Ethiopia's khat exports experienced a little fluctuation but overall upward trend over the analyzed period. After a period of growth from 2010/11 to 2014/15, there was a decline in exports until

2018/19. From 2018/19 onwards, there was a general upward trend, with a substantial increase in 2020/21. However, the most recent data for 2021/22 indicates a slight decrease in chat exports compared to the previous year. This suggests that khat exports face challenges that require attention from policymakers. On average, khat recorded a growth rate of 5% over the past decade reflects a growing demand for this product mainly in the neighbouring countries.

In terms of volume, khat exports in Ethiopia have experienced little fluctuations with an upward trend. From 2010/11 to 2012/13, chat exports remained stable, increasing slightly from 41 thousand to 47.2 thousand tons. In the following years, there was fluctuation in export volume. It peaked at 57.1 thousand tons in 2019/20, showing steady growth. However, in 2020/21, there was a significant increase to 71.2 thousand tons, indicating a surge exports. Surprisingly, in 2021/22, export volume dropped to 56.4 thousand tons, lower than the previous year but still higher than earlier years. According to khat exporters' response, the decline in khat revenue not related to a decline of demand by importers, rather it is related to illegal khat exporting to take the advantage of higher value of foreign exchange in parallel market, security issues and recently high internal taxes on Khat and a number of security and regional custom checkpoints. Despite the slight decline in 2020/21, the overall trend for Khat reflects a sustained demand for this commodity in the neighbouring countries. The consistency of this growth rate also suggests that Ethiopia has a competitive advantage in the production and export of Khat.

Khat has displayed a relatively stable unit price since the price is determined by the agreement between the destination country government (Djibouti and Somalia) and Ethiopian government and it had not been revised in two decades (5 USD per kg). It has experienced a slight increase in the past year due to some improvement of khat exporting to Israel with a value of 35 USD per kg per average. The khat sector has demonstrated a mostly stable unit price trend with slight fluctuations between positive and negative changes, averaging at 1.8%.

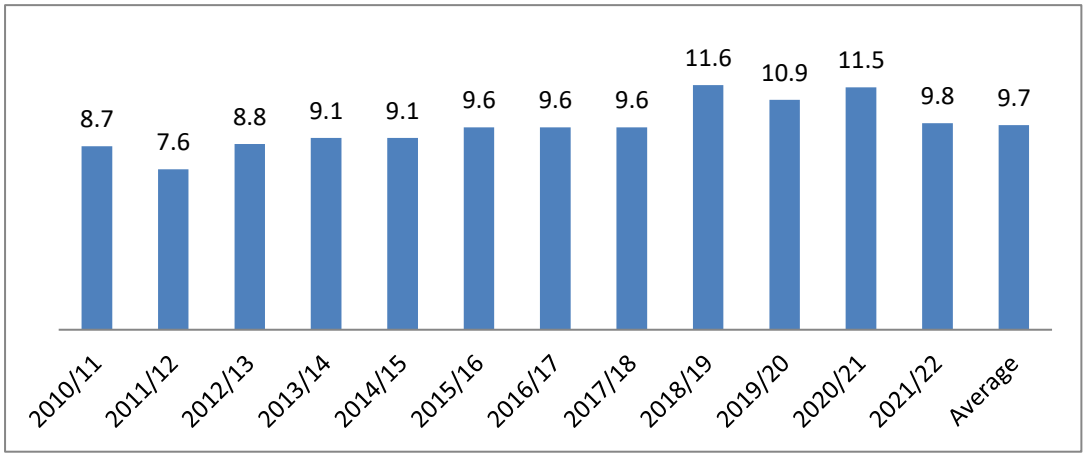
Figure 26: Khat unit price in USD per kg



Source: Author's calculation based on ECC (2010/11- 2021/22)

The share of khat exports remained relatively stable with some increment over the years, ranging from 7.6% in 2011/12 to 11.5% in 2021/22. However, in 2021/22, there was a decrease to 9.8%. The average share of khat exports over the study period is approximately 9.7%, indicates the significance of khat as export item during the given period. The increasing share of the khat sector in Ethiopian exports suggests its growing importance and sustained market demand. This diversification strategy beyond traditional exports contributes to economic growth, job creation, and income for farmers.

Figure 27: Khat share to total merchandize export (2010/11- 2021/22)



Source: Author's calculation based on ECC (2010/11- 2021/22)

Overall, the trend for Khat in the Ethiopian Merchandise Export table indicates that it is an important and valuable commodity for Ethiopia's economy, and there is potential for further growth in the future. However, it is worth noting that the use of Khat is a controversial issue due to its potential negative side effects, such as addiction and long-term health problems. Thus,

Policymakers need to monitor and manage the sector effectively, addressing sustainability and social implications. Fluctuating shares within the sector reflect illegal exporting, marketing issues, climate change and domestic trade policies towards Khat. It is crucial to consider social, cultural, and geopolitical aspects when interpreting the trends, recognizing the broader context of Ethiopia's socioeconomic landscape.

Box 1: The Performance, Opportunities, and Challenges faced by khat exporters

Based on questionnaire survey information, the performance, opportunities, and challenges faced by khat exporters are as follows:

Performance:

Experience: Most khat exporters have extensive experience in the export market, with more than 15 years of working experience and have more than 80 temporary and permanent workers on average. This suggests that they have a good understanding of the industry and its dynamics and job creation capability.

Lack of well-established internal organization: The fact that the business is not well-established indicates a potential weakness in terms of, processes, and systems. This could impact their overall performance and competitiveness.

Reliance on individual networking capabilities: The reliance on individual networking capabilities suggests that the exporters may not have strong formal networks or partnerships in place, which could limit their access to new markets and opportunities.

Fluctuating export profitability: The fluctuating export profitability over the last five years indicates that the business may be facing challenges in maintaining consistent sales and revenue growth.

Opportunities:

1. Quality of khat: The main reason for the competitiveness of khat exporting companies is the quality of their product. This presents an opportunity for them to differentiate themselves in the market and attract customers who value high-quality khat.

Continued ….

2. Proximity to Djibouti and Somalia
3. Availability of road and air transport

Challenges:

1. Export trade obstacles: The exporters face several obstacles in the export market, including difficulties in exporting, limited tolerance of the product to environmental conditions, decrease in orders due to illicit supply at lower prices, a number of security and custom checkpoints can cause delays in supplying easily perishable khat product and increase costs for exporters, and import quotas imposed by importing countries.
2. Production problems: The production of khat is dependent on rainfall, which can lead to fluctuations in production levels. This dependency on weather conditions can pose challenges for consistent supply.
3. Financial affairs and foreign exchange problems: The lack of incentives from the government and the difference between bank exchange rates and the black market can create opportunity for illegal trading which affect legal traders.

Investment environment problems: Unstable political or social conditions, unclear policy management, undeveloped economic and legal systems, corruption, complicated tax procedures, and administrative procedures can all hinder the investment environment for khat exporters.

Overall, while khat exporters have experience and rely on the quality of their product for competitiveness, they face significant challenges in terms of export trade obstacles, production, financial affairs, investment environment, and foreign trade systems. Addressing these challenges will be crucial for the sustained growth and success of khat exporting companies.

Source: author’s compilation from interviews and focus group discussion

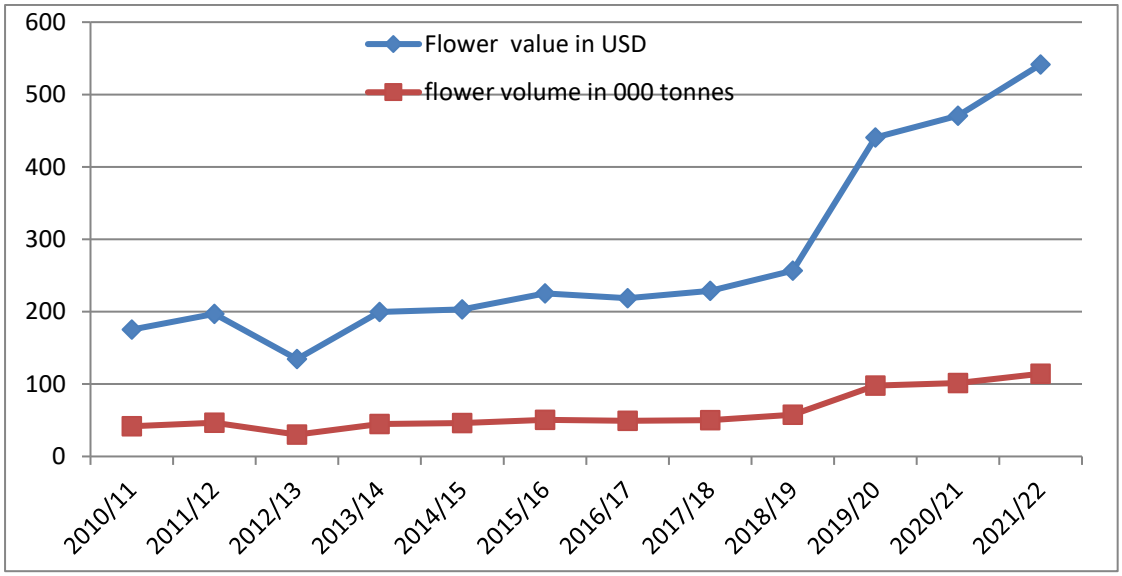
4.2.5. Performance of Flower

Flowers are a relatively new commodity for Ethiopia. Ethiopia is known for its diverse and abundant floral resources, making it a significant player in the global flower export industry. There is a wide variety of flower species that are cultivated, but roses, gypsophila, carnations, chrysanthemums, Limonium, and hypericum are among the most extensively produced. However, roses have around 80% of the country's flower production and export.

The data demonstrates the varying performance of the value of flower exports from Ethiopia over the analyzed period. Despite some fluctuations, there was an overall positive trend, with the export value steadily increasing in recent years Between 2010/11 and 2013/14, there was a decrease in flower exports from 175.3 million USD to 134.5 million USD. However, starting from 2014/15, there was a gradual increase in flower exports, reaching a peak of 541.6 million USD in 2021/22. This indicates a significant growth in flower exports in recent years. The steady increase in flower exports since 2014/15 suggests an expanding market and increased demand for Ethiopian flowers. The substantial rise from 256.6 million USD in 2018/19 to 470.6 million USD in 2020/21 further highlights the rapid growth in the industry. Overall, the trend in flower exports of Ethiopia demonstrates a positive trajectory characterized by periods of decline followed by substantial growth, indicating a flourishing flower export industry in the country. Flower growth rates exhibited significant variations with a high growth rate of 71.6% recorded in 2019/20. The average growth rate for flowers is 13.6% over the past decade.

Similar pattern was also observed in terms of volume over study period. We observed a decline in 2013/14, followed by a recovery and subsequent periods of stability. Notably, there were significant increases in export volume from 2019/20 to 2020/21, and 2021/22. The increasing trend in flower export value and volume indicates a positive growth trajectory for Ethiopia's flower industry. It suggests that the country has been able to tap into international markets and meet the demand for its flower exports, contributing to its export earnings. Although the flower exports sector has potential, there are still challenges that need to be addressed to ensure consistent growth. The fluctuations in flower exports can be attributed to a range of factors, such as changes in global demand, competition from other flower-producing countries, and domestic challenges facing the sector, such as limited access to financing specially for small and medium enterprises, infrastructure related to logistics and technology.

Figure 28: Value (millions of USD) and volume (000 of tonnes) of Flower export (2010/11- 2021/22)



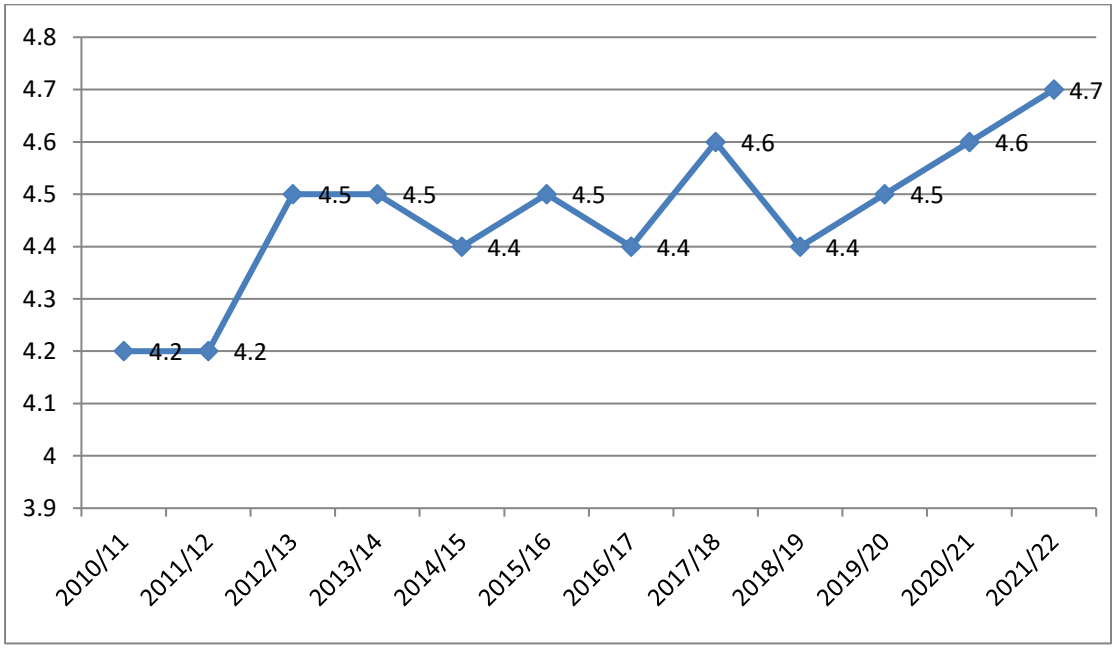
Source: Author's calculation based on ECC (2010/11- 2021/22)

The unit price of Ethiopian flower exports has shown a relatively stable trend from 2010/11 to 2021/22. In the initial years, from 2010/11 to 2012/13, the unit price remained constant at 4.2 USD per kg. It then increased slightly to 4.5 in 2012/13 and continued at that level until 2014/15. From 2015/16 to 2019/20, the unit price fluctuated between 4.4 and 4.6. Finally, in 2020/21 and 2021/22, there was a slight upward trend, with the unit price reaching 4.6 and 4.7, respectively. The slight upward trend in recent years (2020/21 and 2021/22) indicates a potential for growth in the future. This upward trend could be attributed to rising demand, enhanced market recognition, the exportation of higher-value flower varieties and government regulation of floor prices for fresh-cut flowers. Overall, the flower sector has maintained a relatively stable unit price trend with minor fluctuations and an average unit price change of 1.1% over the study period. The stable unit prices of Ethiopian flower exports indicate market stability, competitiveness, consistent quality and the ability to meet market expectations.

The government argues that setting a floor price is necessary because the contracted export prices do not accurately reflect the current prices in different market arrangements, such as auctions and direct sales. This discrepancy affects the government's foreign exchange earnings. Exporters are appealing to the government for a floor price because the majority of their sales are conducted through auctions rather than direct sales. According to EHPEAS, over 60% of Ethiopia's flower exports go to the Netherlands auctions. When participating in the auctions, companies send flowers for grading, which can sometimes result in prices falling below a certain threshold.

However, since the flowers have already been shipped, growers would be required to deposit the remaining balance to the central bank based on the floor price. Another issue is the seasonality of the flower market. Prices tend to decline during off-seasons, such as the periods after Christmas, Valentine's Day, and Mother's Day, which are the peak times for flower sales. Therefore, exporters claim that it may affect their competitiveness in the global market. However, when we look at the price trend before the recent National Bank Directive (Directive No, FXD/80.2022) to set the floor price, the new floor price settled by the government was less than the average sales prices. For example, Floor price for highland roses and summer flower increased to USD 4.2612 and USD 4.7822 per kilo, both increased from USD four per kilo that the National bank had approved beofere two years.

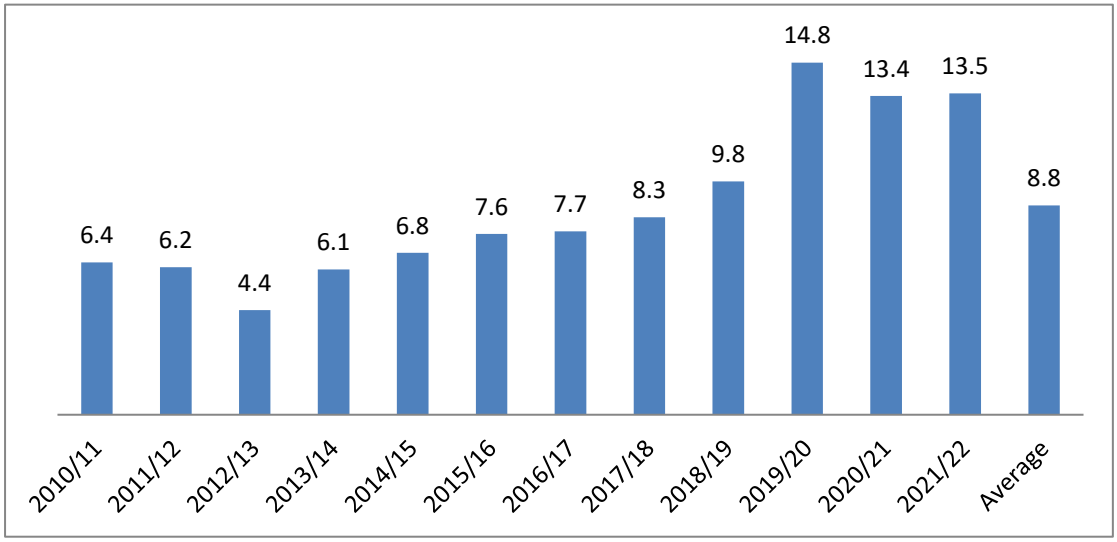
Figure 29: Flower unit pric in USD per kg



Source: Author's calculation based on ECC (2010/11- 2021/22)

The share of Flower exports has varied over the years, but it has generally shown a positive trend. After a decline from 6.4% in 2010/11 to 4.4% in 2012/13, the share gradually increased to 14.8% in 2019/20. In 2020/21, there was a slight decrease to 13.4%, followed by a minor increase to 13.5% in 2021/22. The average share of Flower exports is approximately 8.8%. The increasing share of flower exports signifies the growth potential and successful story in diversification effort of Ethiopian export. Continued investment and development in the flower sector can further boost export earnings.

Figure 30: Flower export share to total merchandize export (2010/11- 2021/22)



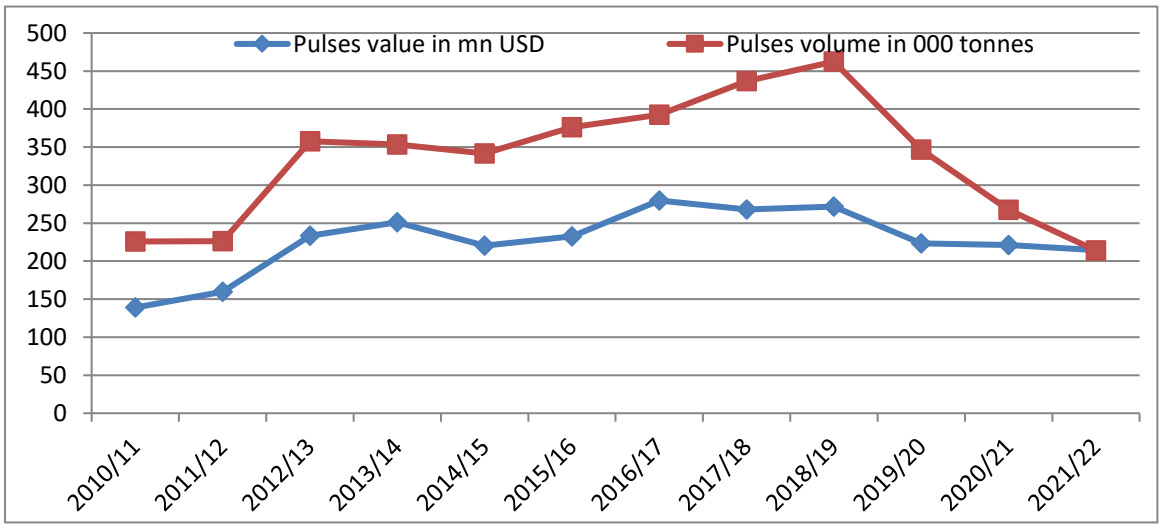
Source: Author's calculation based on ECC (2010/11- 2021/22)

4.2.6. Performance of Pulse Export

Ethiopia is one of the largest producers and exporters of pulses in Africa. Pulses are an important agricultural commodity for the country, with significant export potential. Ethiopia exports various types of pulses, including chickpeas, lentils, and beans. Some of the major export destinations for Ethiopian pulses include India, Pakistan, China, Sudan, and the United Arab Emirates**.**

The export values of Ethiopian pulses have exhibited a mixed pattern, characterized by alternating periods of growth and decline. Between 2010/11 and 2013/14, there was a notable expansion in pulse exports. However, in 2014/15, there was a slight downturn in export values. Fortunately, the trend reversed in 2015/16, and over the subsequent three years (2016/17 to 2018/19), pulse exports remained relatively stable. Nevertheless, there were instances of decline, particularly in 2019/20 and 2021/22. Overall, the average growth rate of pulse exports from Ethiopia is positive (5.2 %), indicating a gradual increase over the past decade.

Figure 31: Value (millions of USD) and volume (000 of tonnes) of Pulses export (2010/11-2021/22)



Source: Author's calculation based on ECC (2010/11- 2021/22)

Upon analysing the volume trend, it can be observed that there was a gradual increase in pulse exports volume from 225.9 thousand tonnes in 2010/11 to a peak of 462.4 thousand tonnes in 2018/19. However, after reaching its highest point, there was a decline in exports in subsequent years. In 2019/20, the export volume dropped to 346.7 thousand tonnes, further decreasing to 267.4 thousand tonnes in 2020/21, and finally reaching 213.9 thousand tonnes in 2021/22. Hence, despite the initial growth, there has been a downward trend in Ethiopian pulse exports over recent years.

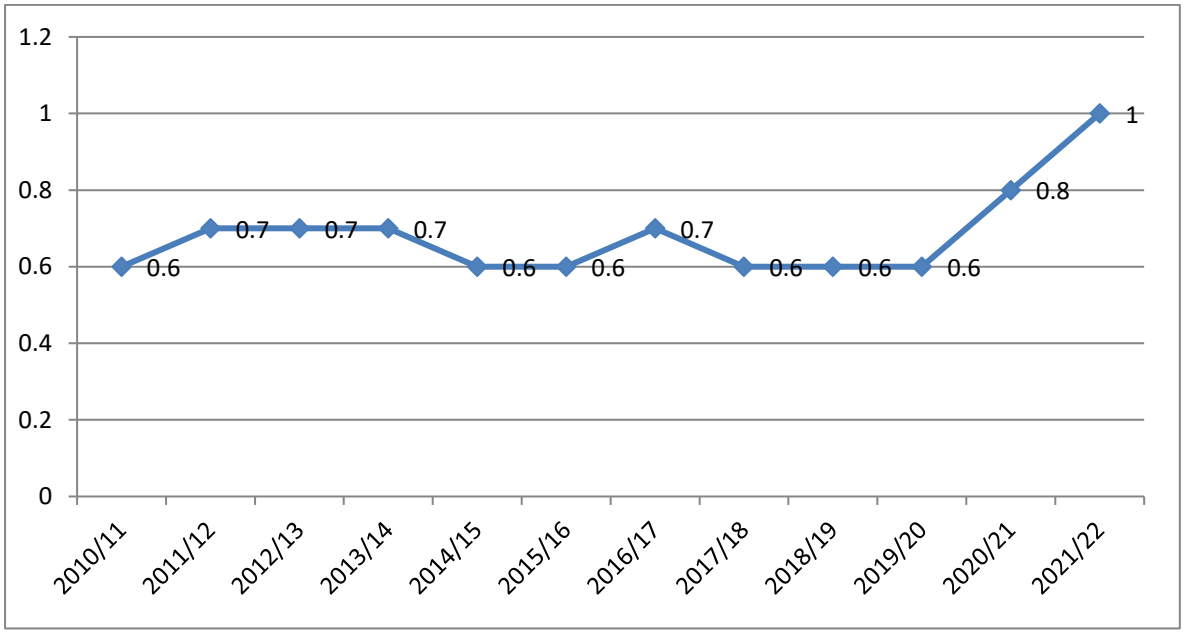
The trend in Ethiopian pulse export values implies several key points. The export values and volume show a fluctuating pattern over the years, indicating that the demand for Ethiopian pulses in the global market has not been consistently increasing or decreasing. This suggests that factors such as market dynamics, international trade policies, and consumer preferences play a significant role in shaping the demand for Ethiopian pulses. Recent decline in export values in 2019/20, 2020/21, and 2021/22 highlights a challenging period for Ethiopian pulse exports. This could be attributed to various factors such as by variations in the production and supply of pulses within Ethiopia. Factors such as weather conditions, agricultural practices, and availability of resources might impact the quantity of pulses produced and subsequently exported. Changes in market dynamics, competition from other pulse-exporting countries, disruptions caused by global events like Covid 19 and some import bans from major Ethiopian pulse importing countries like Pakistan (bans red kidney from March, 2017 to August 2020 due to a concern over a "serious, destructive and virulent quarantine disease") may contribute for recent decline of pulse export. It indicates a

need for monitoring and addressing the factors contributing to the declining trend to sustain and strengthen the pulse export industry.

The period from 2016/17 to 2018/19 witnessed a notable growth phase in Ethiopian pulse export values. This indicates that during that period, Ethiopian pulses gained popularity and experienced increased demand in the global market. It suggests that there is potential for expansion and further growth in the export of Ethiopian pulses if the right conditions are met.

Pulses have seen a minor increase in unit price since 2020/21 after remaining relatively stable for previous years. Such a price trend may reflect two things. One, during this period and beyond, Ethiopian pulses have successfully maintained a competitive position in the export market in terms of quality and prices. Second, it is worth noting that the prices stated by exporters may not always reflect the true value, as some engage in under invoicing for various reasons. Nevertheless, since the introduction of a price board in 2020, which establishes minimum export prices for oilseeds, pulses, and live animals based on international and domestic price trend, there has been an increase in the price of pulse exports.

Figure 32: Pulses unit price in USD per kg



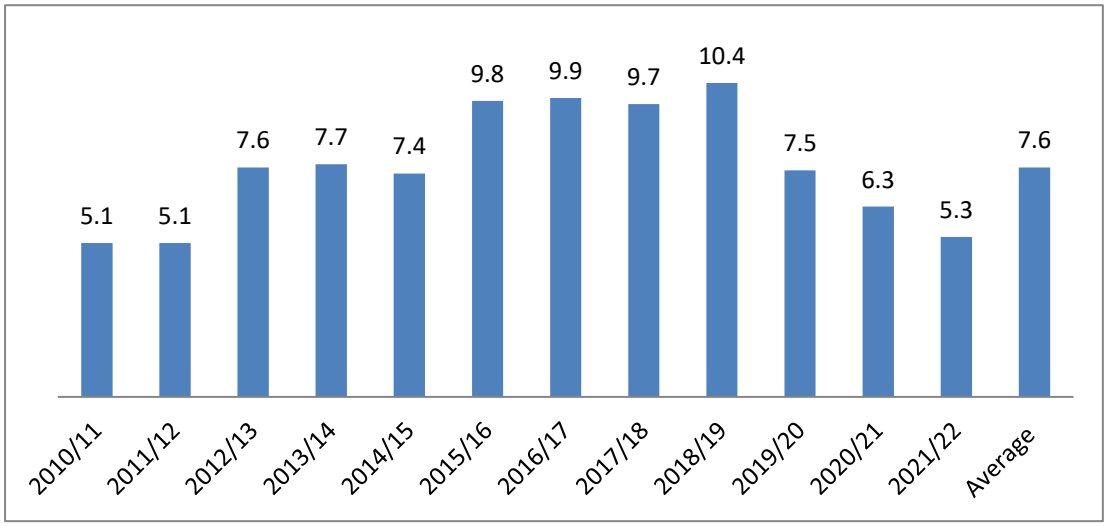
Source: Author's calculation based on ECC (2010/11- 2021/22)

Upon analysing the pulse export share trend, it shows a mixed pattern trend in the proportion of Ethiopian pulses within the country's merchandise exports. In the period from 2010/11 to 2011/12, the export share stood at approximately 5%. Subsequently, between 2012/13 and 2014/15, it reached above 7.5% on average. This positive trajectory continued from 2015/16 to 2017/18, with

the export share consistently surpassing 9.5%. The peak of Ethiopian pulse export share was recorded in 2018/19 at 10.4%. However, in the subsequent three years, there was a rapid decline, with export shares of 7.5%, 6.3%, and 5.3% in 2019/20, 2020/21, and 2021/22 respectively, primarily due a decrease in the volume of pulse exports during these periods. Overall, the average export share of Ethiopian pulses throughout the entire period was approximately 7.6%.

The consistent presence of pulses in Ethiopian exports indicates the country's ability to maintain its market share in this commodity. It reflects the stability and reliability of the Ethiopian pulse industry, which is important for sustaining export revenues. However, it is worth noting the recent decline in export share, which may indicate a need for further examination of factors influencing the pulse export market in Ethiopia.

Figure 33: Pulses share to total merchandize export (2010/11- 2021/22)



Source: Author's calculation based on ECC (2010/11- 2021/22)

To look into detail the pulse performance, table 2 presents the trends of Ethiopian pulse item exports in millions of USD from 2010/11 to 2021/22. It is important to note that black beans were not separately reported in 2010/11 and 2011/12.

Looking at each pulse item individually, Green Mung shows a positive trend with increasing values over time. The values start relatively low in 2010/11 but consistently rise in subsequent years. There is a notable increase in value from 2015/16 onwards, with the highest value observed in 2021/22 (67.9 million USD). This indicates a growing importance and demand for Green Mung in pulse exports. Green Mung has the highest average value of 41.8 million USD, indicating its significant importance in pulse exports.

White Pea Beans show fluctuating trends over the years, with no clear pattern. The values experience ups and downs without a consistent growth trajectory. The highest value is observed in 2012/13 (62.5 million USD), followed by variations but generally maintaining a moderate value range. White Pea Beans follows Green Mung closely with an average value of 37.2 million USD, suggesting its considerable value in the export market.

Table 2: Pulses items export value in million USD

Particulars	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	average
Black Beans*			0.5	1.7	1.0	0.9	2.4	3.6	2.2	3.9	6.7	1.6	2.5
Chick Peas	28.2	28.2	29.1	13.7	20.4	24.9	45.4	22.9	27.0	8.5	25.9	17.7	24.3
Faba Beans	24.2	25.9	21.7	20.5	19.6	28.1	6.9	13.1	33.8	10.7	3.5	5.5	17.8
Green Mung	9.6	12.7	16.7	26.9	27.7	27.4	68.5	73.7	49.8	57.8	63.2	67.9	41.8
Kabuli	11.4	17.1	19.2	12.0	3.4	6.0	29.8	21.1	12.5	3.1	5.5	5.4	12.2
Pinto Beans	0.2	3.2	13.8	19.1	9.3	8.3	3.2	1.1	4.0	7.5	7.5	7.9	7.1
Red Kidney Beans	25.2	26.4	31.7	37.4	51.4	29.2	35.1	29.4	25.1	19.8	14.0	16.3	28.4
Soya Beans	0.6	0.0	19.2	20.0	13.3	17.5	20.8	50.1	44.0	40.5	46.1	29.4	25.1
White Pea Beans	29.9	39.8	61.0	62.5	34.6	20.9	31.1	25.8	44.4	40.1	25.9	30.9	37.2
Others	8.9	6.4	20.5	37.2	39.5	30.9	36.6	27.3	28.7	31.4	23.0	36.2	27.2
Total	138.2	159.7	233.3	251.0	220.3	194.1	279.7	268.1	271.6	223.2	221.3	218.9	223.3

Source: Author's calculation based on ECC (2010/11- 2021/22)

Chick Peas shows fluctuating trends over the years. There is a general increase in value from 2010/11 to 2012/13. However, there is a dip in value in 2013/14 and a subsequent recovery in the following years. The highest value is observed in 2016/17 (45.4 million USD), followed by fluctuations but generally maintaining a relatively stable value range. Chick Peas has an average value of 24.3 million USD, indicating a consistently valuable export item over the years.

Red Kidney Beans display fluctuating but generally increasing trends over the years. The values experience ups and downs, but there is a noticeable overall increase in value. The highest value is observed in 2014/15 (51.4 million USD), indicating a period of high demand for Red Kidney Beans. The values stabilize at a relatively higher level in recent years.

Soya Beans demonstrate mixed trends with fluctuations but without a clear pattern. There is no significant upward or downward trend observed in the values. The highest value is observed in

2017/18 (50.1 million USD). However, it is important to note that Soya Beans' values remain relatively moderate compared to some other pulse items. Red Kidney Beans and Soya Beans have average values of 28.4 million USD and 25.1 million USD, respectively, showcasing their moderate importance in pulse exports.

Faba Beans exhibit variable trends throughout the years. The values fluctuate without a clear upward or downward trend. There is no significant growth in value, and the highest value observed is in 2018/19 (33.8 million USD). However, it is important to note that the values for Faba Beans are generally lower compared to some other pulse items. Faba Bean have average values of 17.8 million USD.

Kabuli displays mixed trends with fluctuations in values over the years. There is no consistent upward or downward trend. The values remain relatively moderate, with the highest value observed in 2016/17 (29.8 million USD). Overall, the export value for Kabuli remains relatively stable, but not significantly high compared to some other pulse items. Kabuli has an average value of 12.2 million USD, indicating a relatively lower importance compared to the above items mentioned.

Pinto Beans show varying trends over the years. There is an increase in value from 2010/11 to 2012/13, followed by fluctuations without a clear pattern. The highest value is observed in 2013/14 (19.1 million USD). However, the values for Pinto Beans generally remain lower compared to many other pulse items. Pinto Beans have an average value of 7.1 million USD, suggesting a lower level of importance in pulse exports.

The value for black beans started to be reported separately from the 2012/2013 onwards. From 2012/13 to 2021/22, the value of black beans has generally increased, starting at 0.5 million USD in 2012/13 and reaching its highest value of 6.7 million USD in 2020/21. However, there have been fluctuations in the value from year to year. There was a significant increase from 2012/13 to 2013/14 (from 0.5 to 1.7 million USD), followed by a decrease in 2014/15 (1.0 million USD), and subsequent fluctuations. The average value for black beans over the reported period is calculated as 2.5 million USD, indicating a relatively lower importance among the pulse export items.

Other’s category, with an average value of 27.2 million USD, represents a diverse group of pulse exports that collectively hold a decent level of importance. In conclusion, the Ethiopian pulse

item exports have been volatile over the past years, with some pulse items displaying increasing trends while others show declines or fluctuations in their export values. Understanding these trends is essential in developing strategies to enhance exports and support the overall growth of the Ethiopian economy.

The trends in Ethiopian pulse item exports imply several things. Firstly, the fluctuations in export values of different pulse items suggest that there may be various factors affecting the demand for these products in international markets. These factors may include changes in consumer preferences, shifts in global market prices, and competition from other countries. Therefore, exporters need to be aware of these changes and adapt their strategies accordingly. Secondly, the declining trend in the export value of some pulse items, such as chickpeas and kabuli beans, indicates that there may be a need to explore new markets or diversify the export basket of pulse items. This could help reduce reliance on a few pulse items and spread risks across multiple products.

Thirdly, the increasing trend in the export value of Green Mung and soya beans highlights the potential of these pulse items in the international market. Exporters may consider focusing on these products and invest in improving their quality and production levels to meet the growing demand. Finally, the overall average export value of pulse items has remained relatively stable over the years. This implies that despite the fluctuations in export values of individual pulse items, the overall performance of the sector is steady. However, there may still be opportunities to increase the value of exports by exploring new markets or investing in research and development to improve the quality and productivity of Ethiopian pulse items.

Share of pulses items

The table represents the trends of the share of pulse items exported from 2010/11 to 2021/22. The data is presented in percentages and includes ten different pulse items and an "others" category. Black beans had a consistently low share of exports; it was 0.2% in 2012/13. After that, the share continued to increase annually until reaching its peak of 3% in 2020/21, followed by a decrease in the last fiscal year to 0.8%. It appears that black beans have recently gained popularity as an export item.

Chickpeas had a high share of exports initially in 2010/11, at 20.4%, but experienced a decline over the following years, reaching a low of 3.8% in 2019/20. However, the share increased again in the last two fiscal years, reaching 11.7% in 2020/21 and 8.1% in 2021/22. It seems that

chickpeas have experienced fluctuating demand, but recent years may indicate resurgence. Faba beans started with a high export share of 17.5% in 2010/11, dropping to a low of 1.6% in 2020/21 before slightly increasing to 2.5% in 2021/22. While it experienced fluctuations, the overall trend has been a decrease in demand for Faba beans.

Green mung beans started with a moderate share of exports and continually increased year by year, experiencing sharp growth between 2015/16 and 2019/20, reaching a peak share of 28.6%. However, there was a slight decrease in the last two fiscal years, falling to 31.0% in 2021/22. Overall, green mung beans have shown an increasing trend in demand. Kabuli had a moderate share of exports in the initial years, but it dropped to 1.4% in 2019/20 and remained low at 2.5% for the last two fiscal years. While there was a slight increase in 2020/21, kabuli has experienced a sharp decline overall.

Pinto beans had a low share of exports initially but grew consistently year by year until reaching its peak at 7.6% in 2013/14. After that, the share decreased annually until reaching its lowest point at 0.4% in 2017/18. However, the share gradually increased again, reaching 3.6% in 2021/22. It appears that pinto beans are regaining popularity as an export item.

Red kidney beans had high shares of exports from 2010/11 to 2014/15, with a peak of 23.3% in 2014/15. However, the share started decreasing thereafter and reached an all-time low of 6.3% in 2019/20 before slightly increasing to 7.5% in 2021/22. Red kidney beans have experienced a decreasing trend overall. Soya beans had a low share of exports in the initial years, but the percentage increased over time, reaching a peak of 20.8% in 2020/21. However, the share dropped to 13.4% in 2021/22. Despite the fluctuations, soya beans have shown an overall increasing trend in demand.

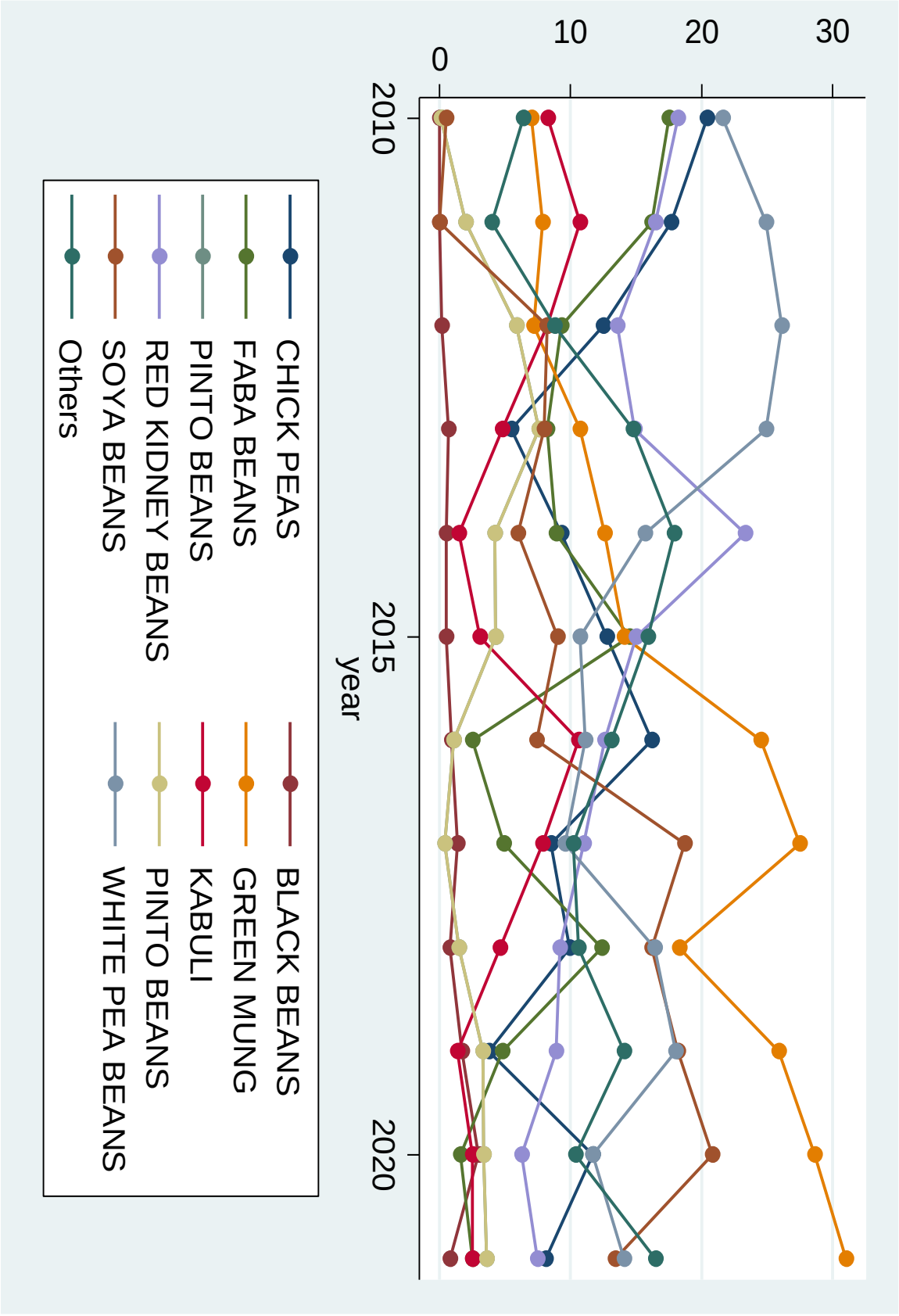
White pea beans had a consistently high share of exports, starting with 21.6% in 2010/11 and experiencing minor fluctuations year by year. While the share decreased to 11.7% in 2019/20, it increased again in the last two fiscal years, reaching 14.1% in 2020/21 and 17.1% in 2021/22. White pea beans have shown a stable trend over the years, with minor fluctuations. Finally, the "others" category had a moderate share of exports initially but experienced a continuous increase until reaching its peak at 17.9% in 2015/16. After that, the share fluctuated to some extent, but the trend has been relatively stable overall. In 2021/22, the share for this category was 16.5%.

Overall, trends vary across the various pulse items, with some experiencing consistent growth or decline, while others experience fluctuations year by year. It is apparent that some pulse items are gaining more popularity as export items, while others are losing their demand over time.

The trends in the share of pulse items' exports have several implications. Firstly, it gives insights into the changing demand for these commodities in international markets. The rise or fall in the share of exports for a particular commodity indicates an increase or decrease in demand, respectively. Therefore, if a country is highly dependent on the export of a specific pulse item, changes in demand could affect its economy.

Secondly, the trend analysis can provide information to policymakers regarding the need to develop strategies to promote certain pulse items in global markets. For example, if a particular pulse item has shown increasing demand over time, policymakers can work on enhancing the production and marketing of that commodity to capitalize on the opportunities in the market. Thirdly, it also suggests that there may be shifts in consumer preferences or changing market conditions that influence the demand for these products. For instance, chickpeas had a high share of exports initially but then experienced fluctuations, indicating that the demand has not been consistent. This may imply a shift in consumer preferences, or perhaps more competition from other countries.

Figure 34: Trends of Share of pulse items in percentage



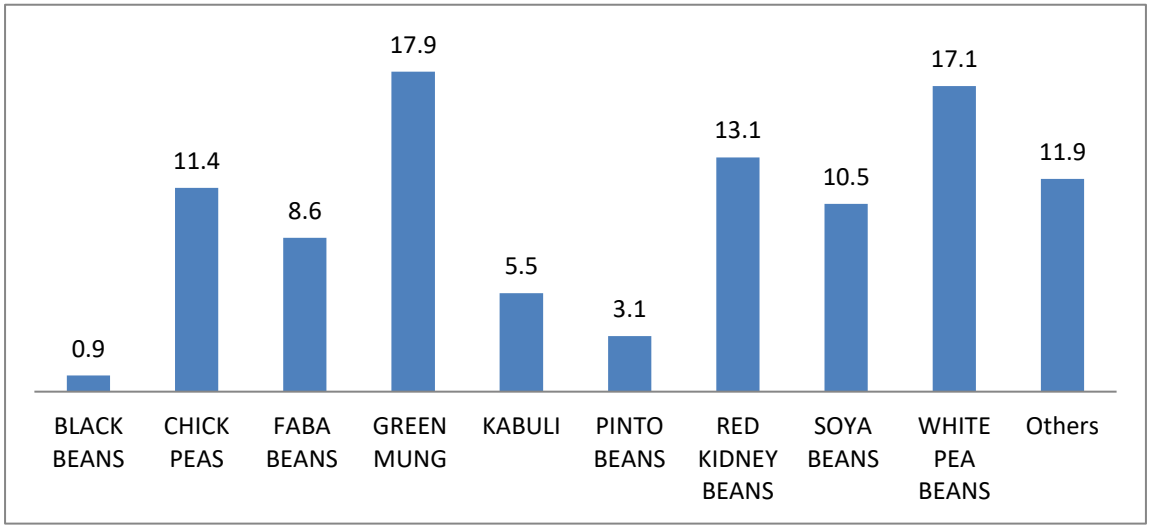
Source: Author's calculation based on ECC (2010/11- 2021/22)

Taking into 12-year data into account, green mung and white pea beans showed relatively higher average shares, indicating their significant contribution to pulse exports.it also suggest that these items are in high demand and popular in the export market. This implies that there is a strong market for these pulse items, potentially driven by factors such as taste preferences, nutritional value, or culinary uses. Pulse items with higher average shares, like chick peas and red kidney beans, indicate that they have a competitive advantage in the global export market. These items may have established market presence, quality standards, or price competitiveness that make them attractive to international buyers.

On the other hand, black beans and pinto beans had lower average shares, suggesting a comparatively smaller presence in the export market. The fluctuating average shares across different pulse items over time imply changing market dynamics and trends. It suggests that consumer preferences, trade policies, or economic factors influence the demand for specific pulse items in different years. Monitoring these fluctuations can help identify emerging trends and adapt strategies accordingly.

The presence of "Others" as a category with a significant average share implies that there is room for diversification within the pulse export market. This category represents various pulse items that collectively contribute a substantial share, indicating potential opportunities for exporters to explore alternative pulse varieties and expand their product offerings.

Figure 35: Pulse items share to total pulse export (2010/11- 2021/22)

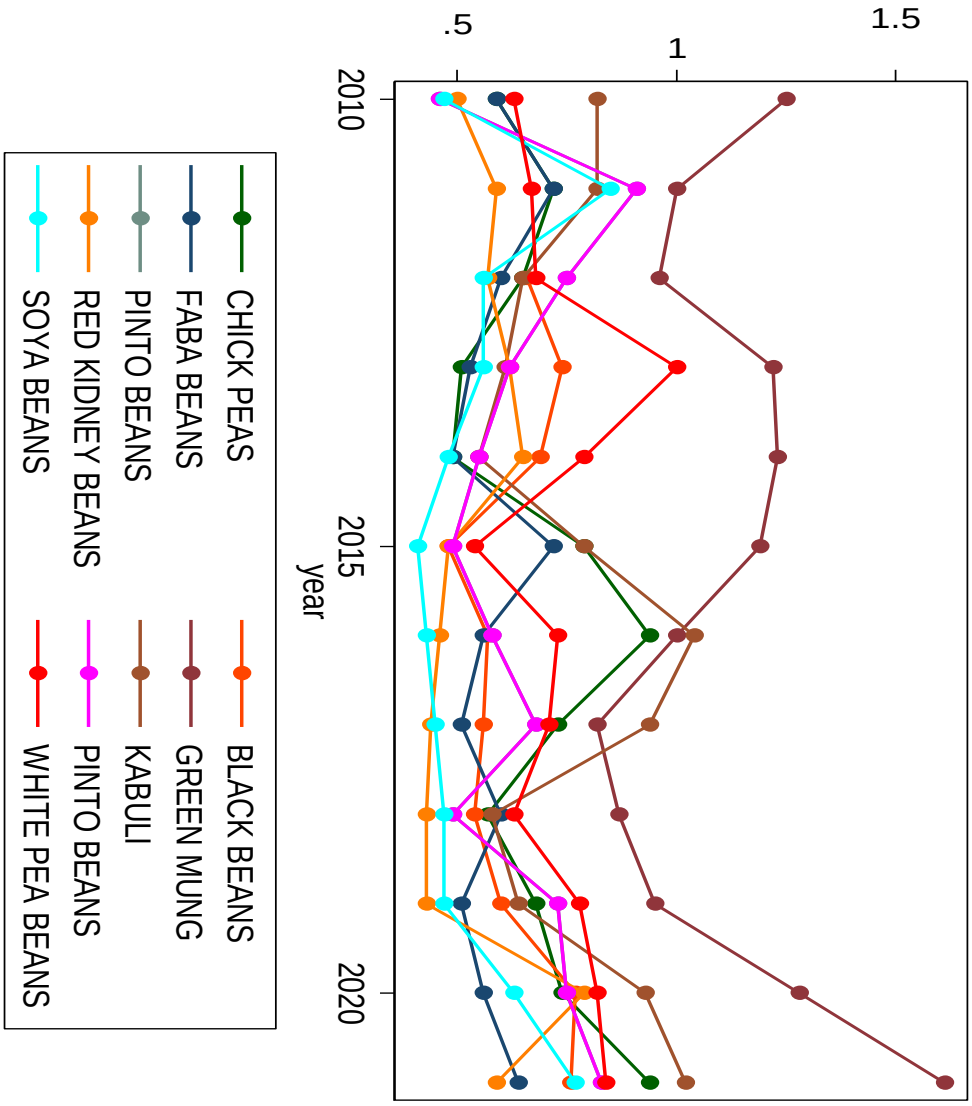


Source: Author's calculation based on ECC (2010/11- 2021/22)

Unit price of pulse items

Black Beans: The unit price for Black Beans remained unavailable for the years 2010/11 and 2011/12. From 2012/13 to 2014/15, the unit price stayed relatively stable, ranging from 0.66 to 0.69. However, starting from 2015/16, there was a decline in the unit price, reaching its lowest point at 0.48 that year. The unit price continued to fluctuate between 0.56 and 0.60 from 2016/17 to 2018/19. In 2019/20, there was a significant increase to 0.77, followed by a slight decrease to 0.76 in 2021/22. Although there were some variations, there seems to be a slight upward trend in the unit price over the years.

Figure 36: Unit prices of different pulse items in USD per kg



Source: Author's calculation based on ECC (2010/11- 2021/22)

Chick Peas: The unit price for Chick Peas started at 0.59 in 2010/11 and showed fluctuations over the years. From 2010/11 to 2013/14, the unit price gradually decreased, reaching its lowest point at 0.51. There was a spike in the unit price in 2014/15 and 2015/16, reaching 0.79. From 2016/17 to 2018/19, the unit price fluctuated between 0.57 and 0.73. In 2019/20, there was a slight increase to 0.68, followed by another increase to 0.74 in 2021/22.

Faba Beans: The unit price for Faba Beans started at 0.59 in 2010/11 and showed fluctuations over the years. There was a decrease in the unit price from 2010/11 to 2012/13, reaching 0.60. From 2013/14 to 2015/16, the unit price remained relatively stable, ranging from 0.49 to 0.72. Starting from 2016/17, there was a decline in the unit price, reaching its lowest point at 0.51 in 2019/20. In 2021/22, the unit price increased slightly to 0.64.

Green Mung: The unit price for Green Mung started at 1.25 in 2010/11 and showed fluctuations over the years. There was a decrease in the unit price from 2010/11 to 2012/13, reaching 0.96. From 2012/13 to 2014/15, the unit price gradually increased, reaching its highest point at 1.23. There was a decline in the unit price from 2014/15 to 2017/18, reaching its lowest point at 0.82. From 2018/19 to 2021/22, the unit price fluctuated between 0.87 and 1.61 USD/kg.

Kabuli: The unit price for Kabuli started at 0.82 in 2010/11 and showed fluctuations over the years. There was a decrease in the unit price from 2010/11 to 2013/14, reaching 0.61. From 2013/14 to 2015/16, the unit price remained relatively stable, ranging from 0.55 to 0.79. Starting from 2016/17, there was a decline in the unit price, reaching its lowest point at 0.58 in 2018/19. In 2021/22, the unit price increased slightly to 1.02.

Pinto Beans: The unit price for Pinto Beans started at 0.46 in 2010/11 and showed fluctuations over the years. There was an increase in the unit price from 2010/11 to 2011/12, reaching 0.91. From 2011/12 to 2015/16, the unit price remained relatively stable, ranging from 0.49 to 0.75. Starting from 2015/16, there was a decline in the unit price, reaching its lowest point at 0.49 in 2018/19. In 2021/22, the unit price increased slightly to 0.83.

Red Kidney Beans: The unit price for Red Kidney Beans started at 0.50 in 2010/11 and showed fluctuations over the years. There was a decrease in the unit price from 2010/11 to 2012/13, reaching 0.57. From 2012/13 to 2014/15, the unit price remained relatively stable, ranging from 0.48 to 0.65. Starting from 2014/15, there was a decline in the unit price, reaching its lowest point at 0.43 in 2017/18, 2018/19, and 2019/20. In 2021/22, the unit price increased slightly to 0.59.

Soya Beans: The unit price for Soya Beans started at 0.47 in 2010/11 and showed fluctuations over the years. There was an increase in the unit price from 2010/11 to 2011/12, reaching 0.85. From 2011/12 to 2013/14, the unit price remained relatively stable, ranging from 0.48 to 0.56. Starting from 2013/14, there was a decline in the unit price, reaching its lowest point at 0.41 in 2015/16. In 2021/22, the unit price increased to 0.77.

White Pea Beans: The unit price for White Pea Beans started at 0.63 in 2010/11 and showed fluctuations over the years. There was an increase in the unit price from 2010/11 to 2013/14, reaching 1.00. From 2013/14 to 2015/16, the unit price remained relatively stable, ranging from 0.54 to 1.00. Starting from 2015/16, there was a decline in the unit price, reaching its lowest point at 0.63 in 2018/19. In 2021/22, the unit price increased slightly to 0.84.

As we have seen from the above presentation, the analysis of the unit prices for each pulse item reveals various patterns and trends. Some pulse items, such as chick peas, black beans, and faba beans, exhibited relatively stable unit prices over the given period. Although there were fluctuations, the prices remained relatively consistent without showing any significant upward or downward trends. This stability could indicate a certain level of market equilibrium and predictability in terms of pricing for these pulse items.

On the other hand, certain pulse items, like green mung beans and kabuli beans, displayed considerable price volatility. These items experienced notable fluctuations, with prices reaching both high and low extremes. Such volatility may suggest that external factors like supply and demand dynamics, weather conditions, or market fluctuations had a stronger impact on the pricing of these pulse items. Market instability or shifting consumer preferences might have influenced these price fluctuations.

In some cases, there were indications of increasing unit prices over time. For example, black beans showed a slight upward trend from 2012/13 to 2021/22, while red kidney beans and soya beans exhibited moderate increases during specific periods. This upward trend might be attributed to factors such as growing demand, changing market dynamics, or inflationary pressures impacting the cost of production and distribution.

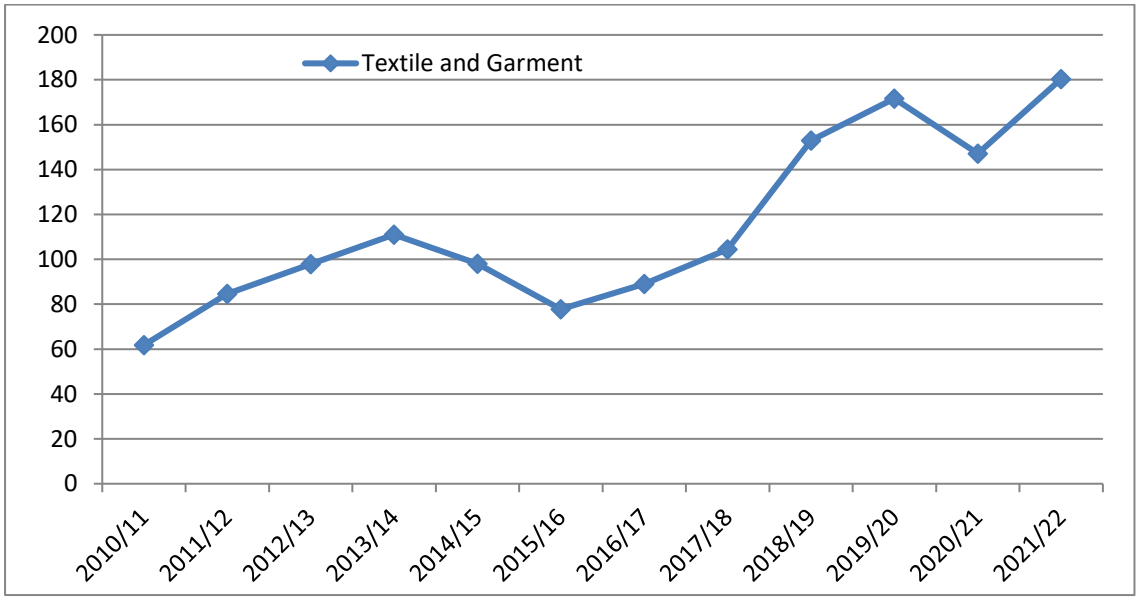
Overall, most pulse items experienced fluctuations in their unit prices across different years, without following a consistent pattern. These fluctuations could arise due to various factors, including changes in production levels, market demand, trade policies, or currency exchange

rates. It highlights the importance of monitoring market conditions and considering multiple variables when analysing pulse prices.

4.2.7. Performance of Textile and Garment Export

A major driver of economic growth or structural transformation is the reallocation of economic activity from low to high productivity sectors. This process involves shifting activities away from agriculture into textiles, followed by electronics and/or machinery manufacturing. Ethiopia has not yet started the traditional process of structural transformation. Global market share in textile exports in Ethiopia has stagnated over the previous decade (averaged 0.03% over the last decade).

Figure 37: Value (millions of USD) of Textile and garment export (2010/11- 2021/22)



Source: Author's calculation based on ECC (2010/11- 2021/22)

The textile and garment industry, which falls within the industrial sector, has demonstrated overall growth and resilience during the analyzed period, albeit with some fluctuations influenced by factors such as economic conditions and the global pandemic. Notably, the Textile and Garment Export experienced significant growth from 2010/11 to 2013/14, highlighting a period of sustained expansion in the industry. In 2010/11, the export value was recorded at 61.8 million USD, steadily increasing to its peak of 111 million USD in 2013/14. However, there was a decline in the subsequent two years, with the export value dropping to 98 million USD in 2014/15. Nevertheless, the industry rebounded in 2015/16 and continued to grow for the following five years and reached 171.6 million USD in 2019/20.

However, the COVID-19 pandemic had an impact on the industry, resulting in a slight decline in textile exports to 147.1 million USD in 2020/21. Despite the challenges posed by the pandemic, the most recent available data for 2021/22 indicates a recovery and improvement in the textile export sector, with the value rising to 180.4 million USD.

The share of textile and garment exports in total export earnings has been increasing over the years. It started at 2.2% in 2010/11 and gradually rose to reach 5.9 % in 2018/19. However, there was some decline on subsequent years due to Covid 19 pandemic and to some extent Ethiopian suspension from African Growth and Opportunity Act AGOA (decided on Nov 2021 and became effective on Jan. 2022). On average, the textile and garment sector accounted for approximately 3.8% of Ethiopia's total export earnings during the period analysed. The sector's contribution is significant but relatively smaller compared to other major export items like coffee, flower, gold, and oil seed.

Overall, the analysis reveals that Ethiopia's textile and garment exports have shown a predominantly positive trend with periods of growth and some minor fluctuations. The industry has demonstrated resilience and the potential for expansion and increased export opportunities. The positive trend in Ethiopia's textile and garment exports can be attributed, at least in part, to trade agreements like AGOA (Ethiopian suspended from AGOA in 2022) and Everything but Arms (EBA), providing duty-free access to the US and EU markets. These agreements reduce trade barriers, attract investment, and give Ethiopian manufacturers a competitive advantage. As a result, the industry has expanded, attracting international buyers and leading to partnerships with global brands. In conclusion, AGOA and EBA have contributed to Ethiopia's textile and garment export success by facilitating market access and supporting industry growth.

4.2.8. Performance of Live Animals Export

Ethiopia stands out as a prominent live animal exporter in Africa, boasting a significant livestock population. With approximately 60 million cattle, 30 million sheep, 30 million goats, and 1.2 million camels, the country possesses abundant resources in the form of livestock (CSA, 2020). This wealth of livestock positions Ethiopia favourably in the international market for live animal exports, allowing it to maintain a competitive edge.

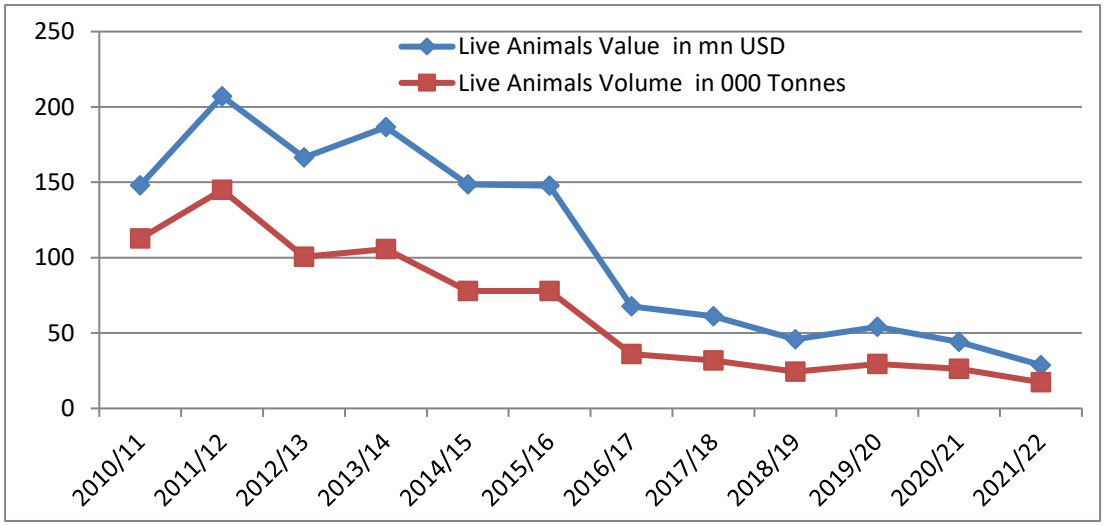
Ethiopia engages in the exportation of a diverse range of live animals, encompassing cattle, sheep, goats, camels, horses, poultry, and bees. Among these, cattle stand out as one of the frequently exported species, with popular choices including Boran, Arsi, and Horro breeds. The exportation

of sheep and goats also accounts for significant numbers, with Afar and Somali breeds being favoured due to their resilience in challenging environments.

Figure 38 shows that the total export of live animals from Ethiopia has declined from 147.9 million USD in 2010/11 to 28.7 million USD in 2021/22. This represents a significant decrease of about 80% over the past 12 years.

The trend of the value of live animal exports in Ethiopia fluctuated over the years. It initially increased from $147.9 million in 2010/11 to $207.1 million in 2011/12, indicating significant growth. However, it declined and reached its lowest point at $67.6 million in 2016/17. Afterward, the value remained relatively stable, ranging between $45.8 million and $67.6 million. In the most recent year, 2021/22, there was a noticeable drop, with the value declining to $28.7 million. Similarly, the volume of live animal exports from Ethiopia also exhibited fluctuations and an overall declining pattern. It increased from 112.8 thousand tonnes in 2010/11 to 144.9 thousand tonnes in 2011/12. From 2012/13 to 2015/16, the volume fluctuated but showed a general downward trend. The lowest volume recorded was 36.1 thousand tonnes in 2016/17. Subsequently, the volume remained relatively stable, ranging between 24.4 thousand tonnes and 36.1 thousand tonnes. In the most recent year, 2021/22, the volume dropped to 17.3 thousand tonnes.

Figure 38: Value (millions of USD) and volume (000 of tonnes) of live animals export (2010/11- 2021/22)

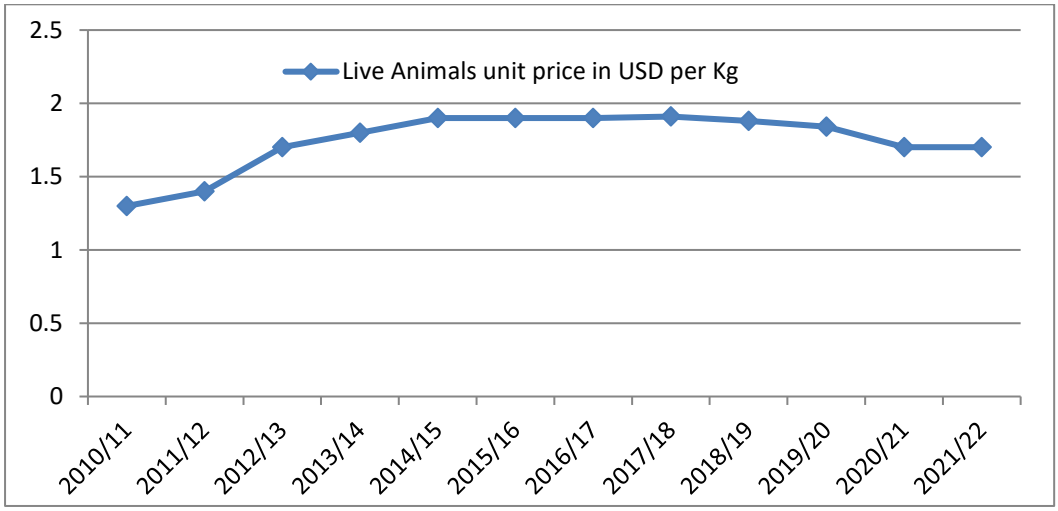


Source: Author's calculation based on ECC (2010/11- 2021/22)

Overall, the data suggests that Ethiopian live animal exports experienced significant fluctuations over time in terms of both value and volume. There was initial growth in both aspects, followed by a period of decline. After the decline, a phase of relative stability was observed before a notable

drop in the most recent year (2021/22). The annual growth rate of live animal exports value from Ethiopia is negative (10.9%), indicating a declining trend over the past decade. Several factors could have contributed to this decline, including drought, animal diseases, and illegal trading. Live animals have witnessed a slight decrease in unit price since 2017/18, but it has remained reasonably stable overall.

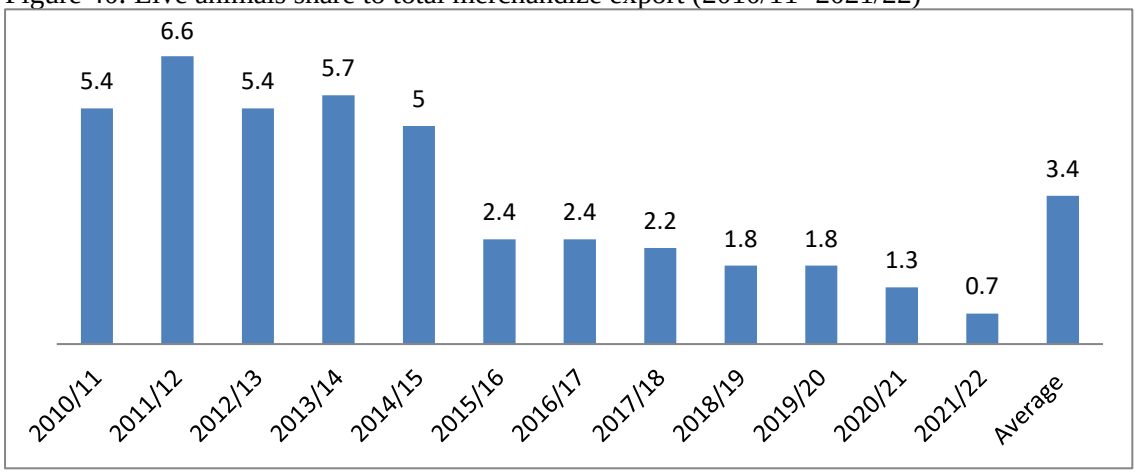
Figure 39: Live animals unit price in USD per kg



Source: Author's calculation based on ECC (2010/11- 2021/22)

The share of live animals' exports has shown some fluctuations but generally decreased over the years. The share declined from 6.6% in 2011/12 to 0.7% in 2021/22. The average share of live animals exports is approximately 3.4%.

Figure 40: Live animals share to total merchandize export (2010/11- 2021/22)



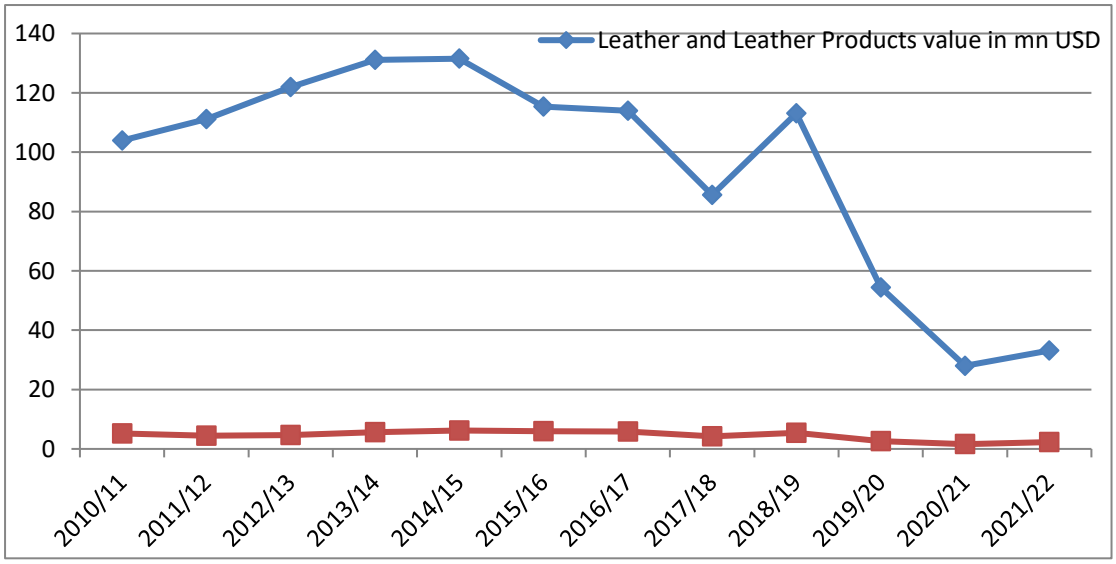
Source: Author's calculation based on ECC (2010/11- 2021/22)

4.2.9. Performance of Leather and Leather Products

Ethiopia is exporting mainly finished leather followed by growing shoe exports. Gloves, materials made up of leather, unfinished leather export are also the main products of the leather export. According to the table, Ethiopian leather and leather product exports have been fluctuating over the past 12 years. In 2010/11, the export value was 103.9 million USD, which increased to 131.1 million USD in 2013/14 before decreasing to 28 million USD in 2020/21. However, there was a slight increase to 33.2 million USD in 2021/22. The average growth rate for Ethiopian leather and leather products exports over the past 12 years is negative at 5.8 %. This indicates that, on average, the export value has been decreasing by approximately 5.8 % annually over the period.

The export volumes of leather and leather products showed a generally decreasing trend over the years, with the lowest volume of 1.6 thousand tonnes recorded in 2020/21. Leather and leather product exports have also shown mixed trends over the years. Although there was a slight increase in 2012/13, the trend was mostly negative until 2016/17. However, the sector experienced impressive growth rates in 2017/18 and 2018/19, with rates of 28.6% and 51.9%, respectively. Although there was a decline of 5.1% in 2019/20, the trend reversed again in 2020/21, with a growth rate of 31.8%. Nonetheless, there was a decline of 4.1% in 2021/22. This suggests that while there is potential for growth in this sector, there are still challenges that need to be addressed.

Figure 41: Value (millions of USD) and volume (000 of tonnes) of Leather and leather products export (2010/11- 2021/22)

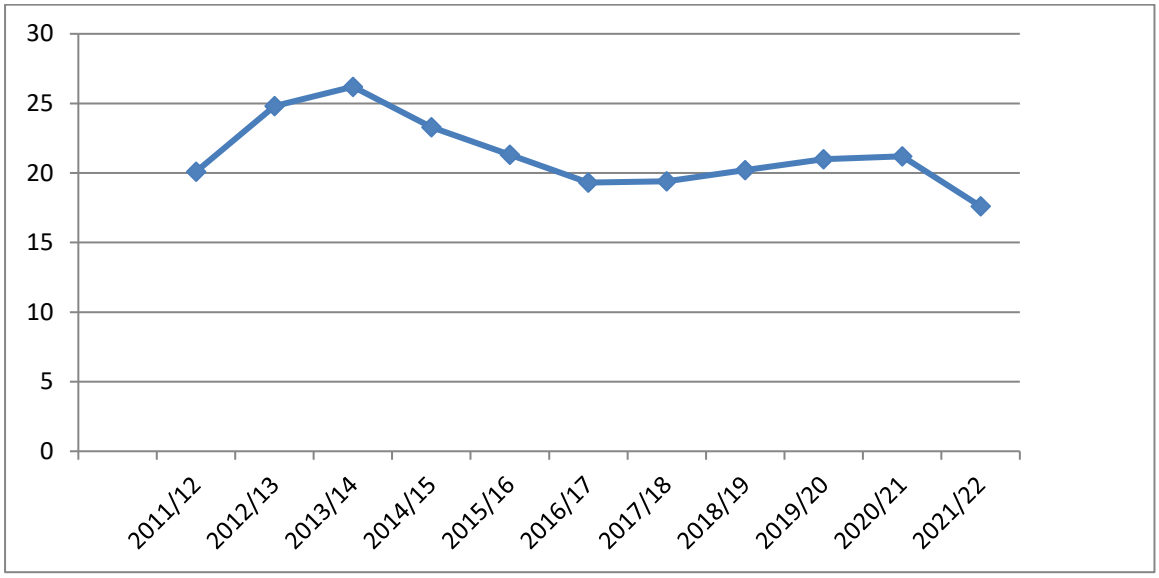


Source: Author's calculation based on ECC (2010/11- 2021/22)

The trend in Ethiopian leather and leather product export unit prices shows initial increases, followed by a gradual decline in unit price since 2014/15 and subsequent stability. However, in

recent years, there has been a significant decrease in unit prices, indicating potential challenges or changes in market dynamics affecting the pricing of these products.

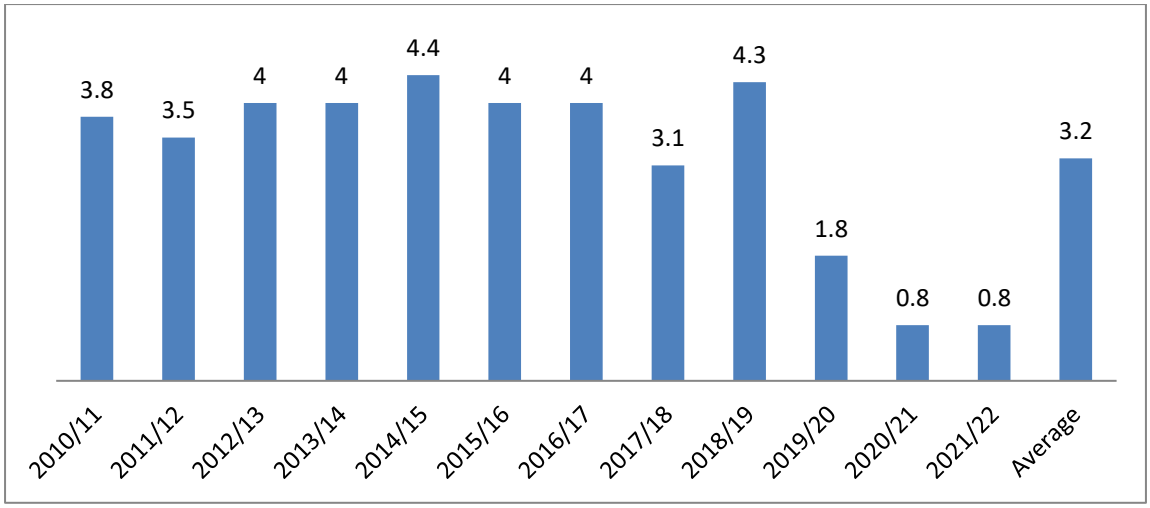
Figure 42: Leather and Leather products unit price in USD per kg



Source: Author's calculation based on ECC (2010/11- 2021/22)

Ethiopian leather and leather product export share to total export shows a fluctuating pattern over a span of twelve years, from 2010/11 to 2021/22. The export share started at 3.8% in 2010/11, and then slightly decreased to 3.5% in 2011/12. However, it showed a slight increase to 4% in 2012/13, which was maintained in 2013/14. In the subsequent years, the export share experienced a gradual growth, reaching its peak at 4.4% in 2014/15. However, it remained stable at 4% in both 2015/16 and 2016/17. From 2017/18 onwards, there was a noticeable decline in the export share. It dropped to 3.1% in 2017/18 and further decreased to 4.3% in 2018/19. The downward trend continued in 2019/20, with a significant decrease to 1.8%. The following year, 2020/21, reached to its lowest point 0.8%, which was sustained in 2021/22 as well. On average, throughout the entire period, the export share of Ethiopian leather and leather products stood at 3.2%. The significant drop in the export share in recent years, particularly in 2019/20, 2020/21, and 2021/22, raises concerns about the industry's competitiveness and sustainability. Further analysis is required to identify the specific reasons behind this decline and to develop appropriate strategies for revitalizing the sector.

Figure 43: Leather and leather products share to total merchandize export (2010/11- 2021/22)



Source: Author's calculation based on ECC (2010/11- 2021/22)

The export volumes of leather and leather products showed a generally decreasing trend over the years, with the lowest volume of 1.6 thousand tonnes recorded in 2020/21. Leather and leather product exports have also shown mixed trends over the years. Although there was a slight increase in 2012/13, the trend was mostly negative until 2016/17. However, the sector experienced impressive growth rates in 2017/18 and 2018/19, with rates of 28.6% and 51.9%, respectively. Although there was a decline of 5.1% in 2019/20, the trend reversed again in 2020/21, with a growth rate of 31.8%. Nonetheless, there was a decline of 4.1% in 2021/22. This suggests that while there is potential for growth in this sector, there are still challenges that need to be addressed.

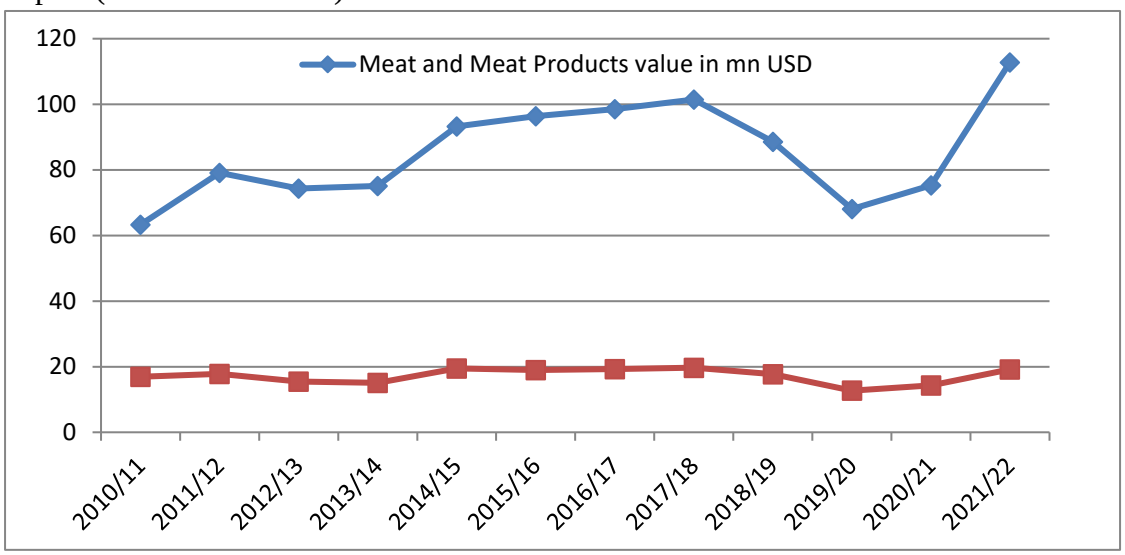
The leather and leather product industry are an important sector for Ethiopia's economy as it creates employment opportunities and generates foreign exchange. Despite the fluctuations in export values, the sector has significant potential for growth and development. It is worth noting that Ethiopia focuses on exporting semi-processed and finished leather products, such as shoes and bags, rather than raw hides and skins. Therefore, the development of the leather industry in Ethiopia will require investments in modernizing tanneries, improving supply chain management and eliminating internal taxes and other trade bottlenecks in the sector.

4.2.10. Performance of Meat and Meat Products

Figure 42 shows that the total export of meat and meat products from Ethiopia has fluctuated over the past 12 years, ranging from 63.3 million USD in 2010/11 to 112.8 million USD in 2021/22. Meat and Meat Products recorded mostly positive growth rates, with a very high growth rate of 49.9% in 2020/21, and an average growth rate of 7 %, indicating a gradual increase over the past decade. Similarly, meat and meat products experienced fluctuations in export volume during the

period under review, with the highest volume of 19.7 thousand tonnes recorded in 2017/18. However, the trend has been relatively stable around the 15-20 thousand tonnes range.

Figure 44: Value (millions of USD) and volume (000 of tonnes) of Meat and Meat product export (2010/11- 2021/22)



Source: Author's calculation based on ECC (2010/11- 2021/22)

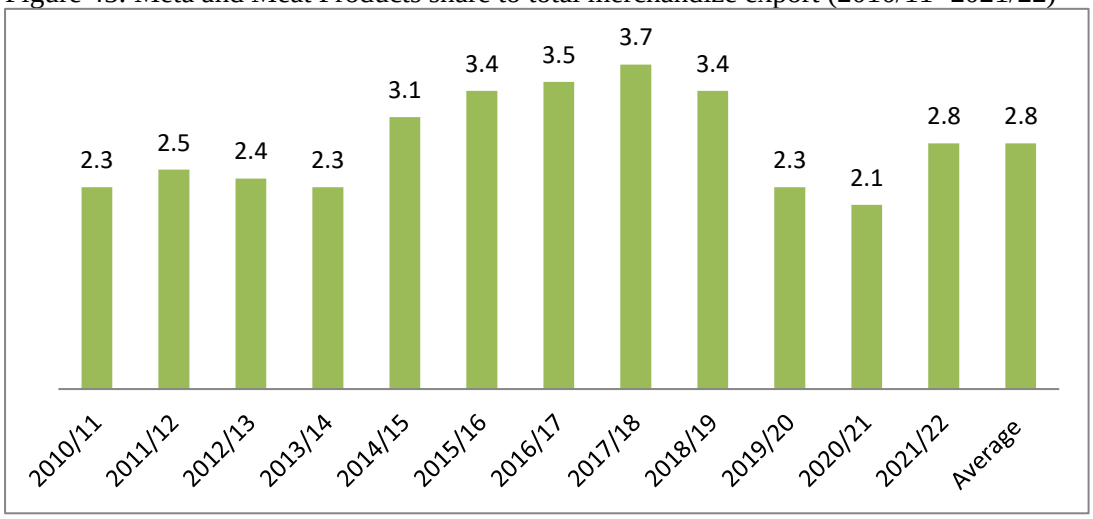
Meat and Meat Products have generally experienced an upward trend in their unit price since 2010/11, with a slight downturn in 2020/21 but a rebound in 2021/22. In Ethiopia, the unit price of meat and meat product exports is three times higher than the unit price of live animal exports. This difference in prices has economic implications as it indicates that processed meat products have a higher value compared to live animals. The export of processed meat products involves additional processes like slaughtering, packaging, and other processing steps, which increase the value of the final product and allow for a higher unit price. The lower unit price of live animal exports may encourage stakeholders in the Ethiopian livestock industry to consider vertical diversification by investing in value-added processes such as meat processing facilities. Processing live animals into meat products adds economic value by creating higher-value finished goods, leading to increased revenue and potentially higher profit margins. Processed meat products also have longer shelf lives, enabling broader domestic and international market reach, contributing to economic added value. Developing a robust meat-processing sector can create more employment opportunities in slaughtering, butchering, packaging, quality control, storage, logistics, and marketing, thus supporting livelihoods and overall economic development.

The data shows some fluctuations in the share of meat and meat products exports over the years. From 2010/11 to 2014/15, the share remained relatively stable between 2.3% and 2.5%. However, there was a notable increase in the share from 2014/15 to 2016/17, where it rose from 3.1% to

3.5%. Subsequently, from 2017/18 to 2019/20, the share ranged between 3.4% and 3.7%. There was a slight decline in the most recent years, with shares of 2.3% in 2020/21 and 2.1% in 2021/22. Considering the average share of 2.8% over the entire period, Ethiopian meat and meat products have maintained a somewhat consistent presence in the export market.

Overall, the data indicates a growing trend in the export performance of meat and meat products from Ethiopia over the past 12 years. This growth can be attributed to several factors, including increasing demand for meat products in global markets, investment in improving animal health and productivity, and compliance with international trade requirements. However, there is still a need for continued investment and improvement in areas such as logistics, regulatory compliance, and value addition to further increase the competitiveness and sustainability of Ethiopia's meat and meat product export industry.

Figure 45: Meta and Meat Products share to total merchandize export (2010/11- 2021/22)



Source: Author’s calculation based on ECC (2010/11- 2021/22)

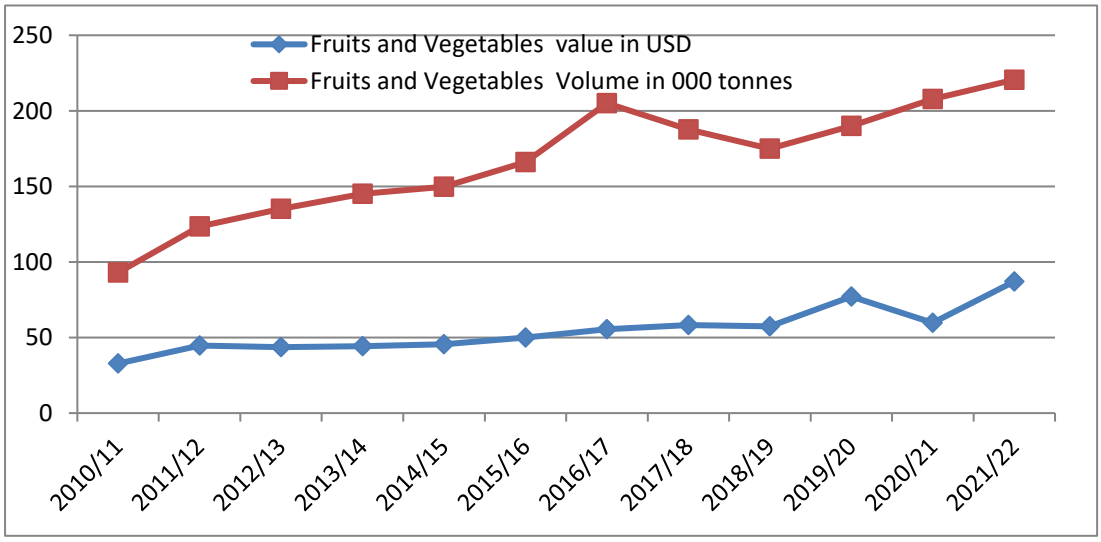
4.2.11. Performance of Fruit and Vegetables

The largest fresh products in Ethiopian export are vegetables, including tomatoes and onions, potatoes, strawberries, plantains and banana. Most of these are exported to neighbouring countries to Somalia and Djibouti and to some extent to Sudan. in the case of strawberries, to Saudi Arabia and UAE. Beans ("Vigna spp., Phaseolus spp, Leeks and other alliaceous vegetables (excl. onions, shallots, garlic), Vegetables, not elsewhere specified (e.g. fresh herbs, okra), Peas ("Pisum sativum" e.g. mangetout, sugar snaps) and Grapes are the main export item to Europe. Fruit and vegetables with the most import growth: Grapes, Vegetables, not elsewhere specified, Beans, Avocados and Strawberries are also showing some growth of exporting to Europe.

Figure 46 show that there has been a positive trend for fruit and vegetables exports in Ethiopia over the past decade. From 2010/11 to 2013/14, there was a slight fluctuation in the export values, with a peak at 44.7 million USD in 2011/12. However, during this period, the overall trend remained relatively stable. Starting from 2014/15, there was a gradual increase in the export value of fruits and vegetables. The values rose from 45.5 million USD in 2014/15 to 87.1 million USD in 2021/22, reaching its peak during that year. This indicates a significant growth in the export sector.

Notably, there were some fluctuations within this growth trend. For instance, there was a decline in export values in 2019/20 when it dropped to 59.7 million USD. This decline can be attributed to the outbreak of the Covid-19 pandemic, which imposed limitations on production and transportation. However, this downturn was followed by a substantial recovery in the subsequent year, with exports reaching 87.1 million USD in 2021/22. Like the value, there was gradual growth in Ethiopian fruit and vegetable export volume over the years. Starting from 93 thousand tonnes in 2010/11, the volume increased to 123.5 thousand tonnes in 2011/12 and continued to rise steadily in subsequent years. By 2021/22, the export volume reached its highest point at 220.6 thousand tonnes. Despite some fluctuations along the way, there has been an overall positive trajectory in the export volume, indicating a consistent expansion of the fruit and vegetable export industry in Ethiopia.

Figure 46: Value (millions of USD) and volume (000 of tonnes) of fruit and vegetables export (2010/11- 2021/22)

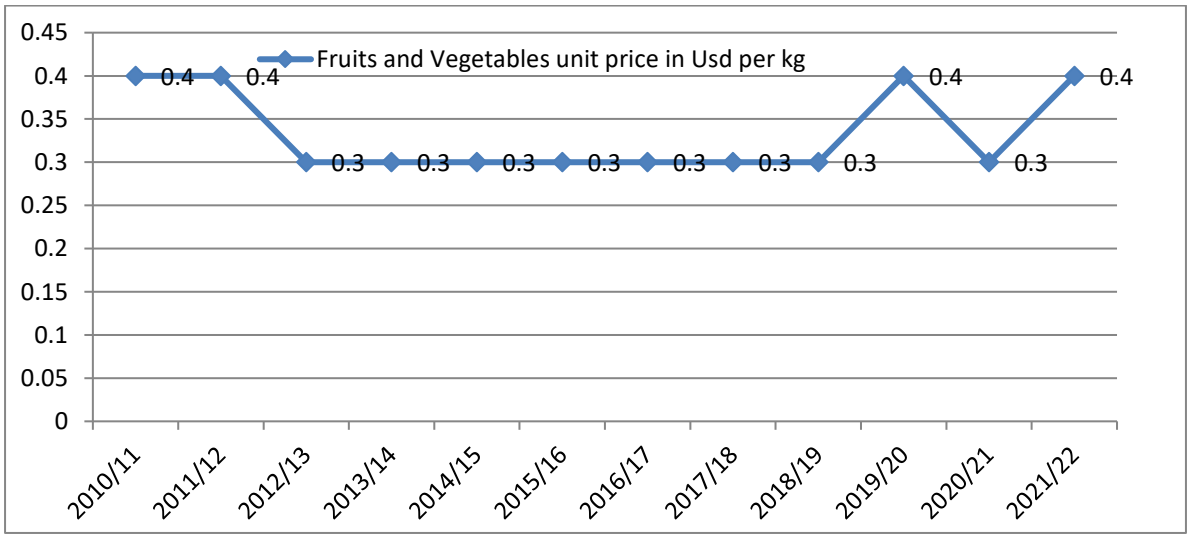


Source: Author's calculation based on ECC (2010/11- 2021/22)

Overall, the trend in Ethiopian fruit and vegetable exports demonstrates a generally positive trajectory with consistent growth over the years, apart from a temporary decline in 2019/20. The positive export trend indicates that Ethiopian fruits and vegetables are competitive in terms of price, quality, and availability compared to products from other countries. This implies that Ethiopian exporters have been able to meet the standards and preferences of international buyers effectively and there is potential for further expansion in Ethiopian fruit and vegetable exports.

The data reveals a relatively stable trend in the unit price of Ethiopian fruit and vegetable exports over the given period. The unit price remained consistent at 0.4 USD per kg in both 2010/11 and 2011/12 before slightly decreasing to 0.3 USD per kg in 2012/13. From 2012/13 to 2019/20, the unit price remained steady at 0.3 USD per kg. There was a brief increase to 0.4 USD per kg in 2019/20, followed by another decrease to 0.3 USD per kg in 2020/21. Finally, in 2021/22, the unit price increased again to 0.4 USD per kg. Overall, although there were minor fluctuations, the unit price of Ethiopian fruit and vegetable exports remained relatively constant over the analysed years. The reason behind this is that a significant portion of Ethiopian trade with Djibouti and Somalia, particularly in the case of fruit and vegetables (accounting for 75.5% of shipments), price does not operate according to the principles of supply and demand. Instead, the minimum price threshold is determined through negotiations conducted either by the government or the export associations of these countries.

Figure 47: Fruits and Vegetables unit price in USD per kg



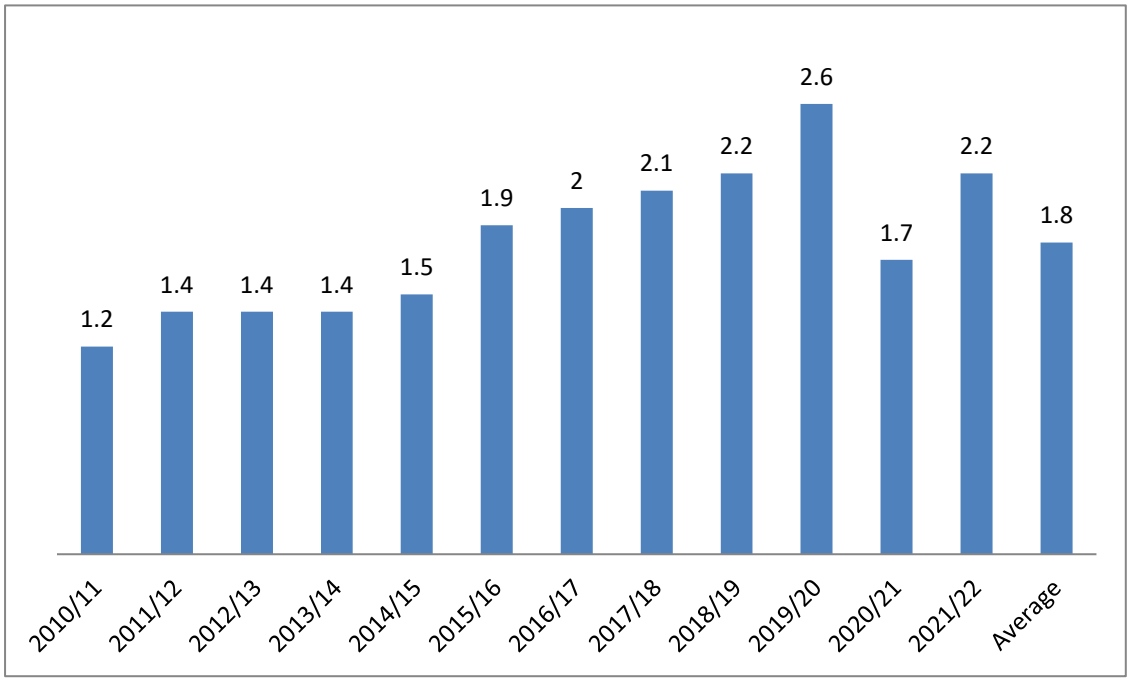
Source: Author's calculation based on ECC (2010/11- 2021/22)

The data illustrates a fluctuating trend in the share of Ethiopian fruit and vegetables to the total export over the given period. The share started at 1.2% in 2010/11 and gradually increased to 1.5% in 2014/15. Then, there was a significant jump to 1.9% in 2015/16, followed by further growth to 2% in 2016/17 and 2.1% in 2017/18. The upward trajectory continued with the share reaching 2.2% in 2018/19. However, the trend reversed in 2019/20, with a substantial increase to 2.6% before dropping to 1.7% in 2020/21. In the most recent year, 2021/22, the share slightly recovered to 2.2%.

Overall, while there are fluctuations in the share of Ethiopian fruit and vegetables to the total export, there is an increasing trend from 2010/11 to 2018/19, followed by a more volatile pattern in subsequent years. The average share over the entire period stands at 1.8%. The trend in the share of Ethiopian fruit and vegetables share to total export has multiple implications.

The increasing trend from 2010/11 to 2018/19 signifies the growing importance of these products in Ethiopia's exports, indicating potential growth and sector development. However, the fluctuating trend after 2018/19 reflects market volatility and challenges faced by the industry due to factors like covid 19, climate, security, changing demand and global market conditions. Despite fluctuations, a growing share of fruit and vegetables in total exports can have positive economic impacts such as employment generation, income for farmers, foreign exchange earnings, and diversification of the export base. With an average share of 1.8%, there is room for improvement, highlighting opportunities for enhancing production, quality standards, exploring new markets, and implementing competitive strategies. Overall, addressing underlying factors can lead to sustained growth, increased market share, and development of the Ethiopian fruit and vegetable sector.

Figure 48: Fruit and vegetables share to total merchandize export (2010/11- 2021/22)



Source: Author's calculation based on ECC (2010/11- 2021/22)

4.2.12. Performance of Food and Beverage Exports

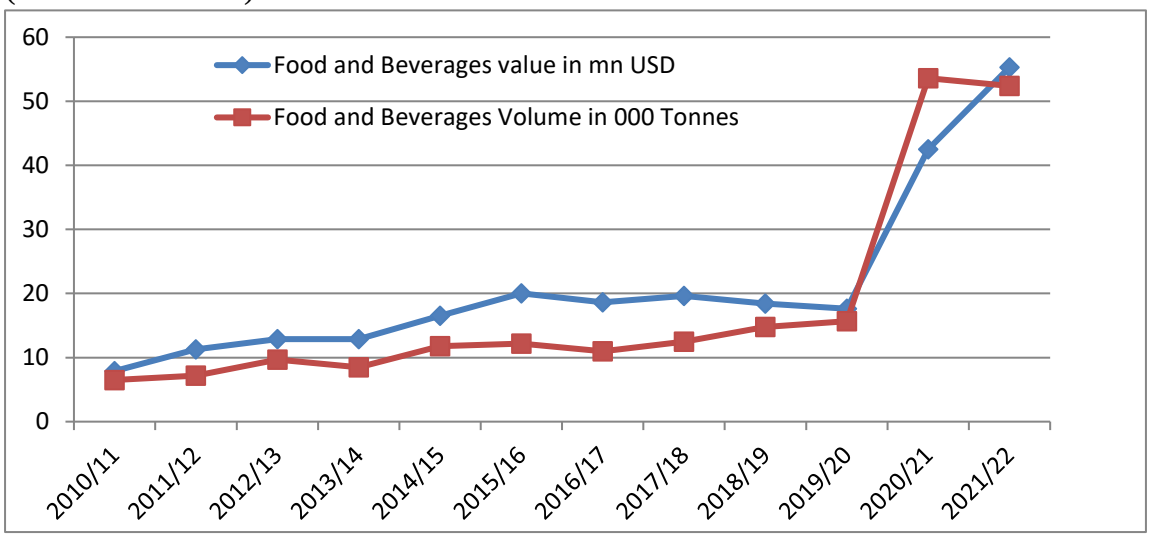
Ethiopia's primary food and beverage exports consist of staple foods such as Injera, Shiro, Aja, Kolo, as well as alcoholic beverages like beer, wine, and spirits. Additionally, Ethiopia exports other processed food items categorized under HS Code[3] 2106 - Food preparations not elsewhere specified. These staple foods are primarily targeted towards markets that have significant Ethiopian diaspora populations.

From 2010/11 to 2015/16, there was a steady increase in the value of Ethiopian food and beverage, starting at 7.9 million USD and reaching 20 million USD. This indicates a positive growth trend during this period. However, from 2016/17 to 2019/20, there was a slight decline in the value of Ethiopian food and beverage, with the lowest point being 17.6 million USD. This suggests a temporary setback or stagnation in the industry. Surprisingly, in 2020/21, there was a significant jump in the value, reaching 42.5 million USD. This sharp increase could be attributed to various factors, such as increased demand, market expansion, or government initiatives. Continuing this upward trajectory, the value of Ethiopian food and beverage further rose to 55.3 million USD in 2021/22,

[3] HS code 6 means a Harmonized System (HS) is an international standard for classifying traded goods, and it is used by customs authorities to determine tariffs, quotas, and other import/export regulations. A shorter code represents broader product categories, while a longer code indicates more specific sub-categories. At the international level, the Harmonized System (HS) for classifying goods is a six-digit code system.

indicating a substantial growth spurt for the industry. The average growth rate was 24.1%, highlighting potential opportunities for further development in the future.

Figure 49: Value (millions of USD) and volume (000 of tonnes) of food and beverages export (2010/11- 2021/22)

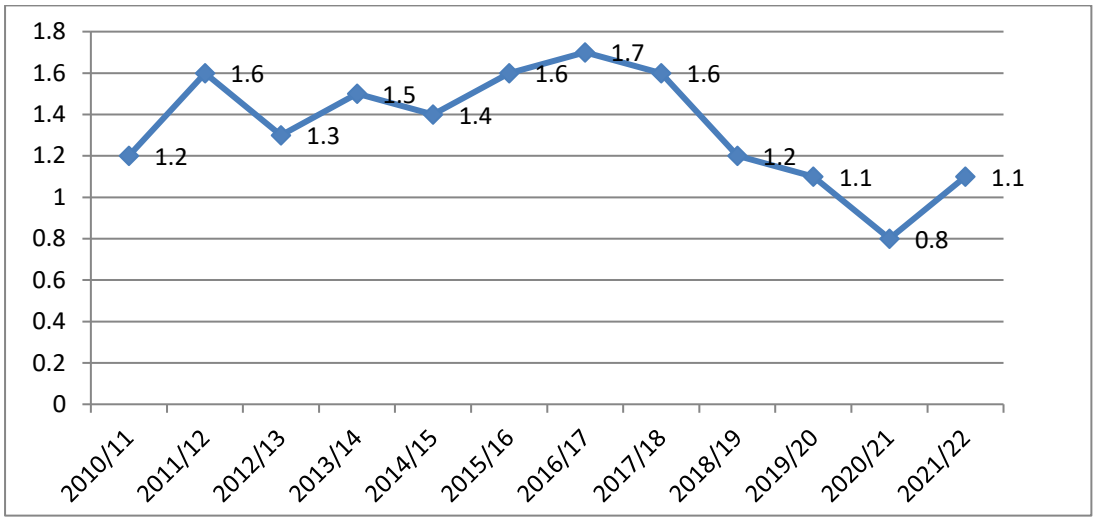


Source: Author's calculation based on ECC (2010/11- 2021/22)

In terms of volume, the data clearly demonstrates a strong upward trend in Ethiopian food and beverage consumption over the period from 2010/11 to 2021/22. The volume of consumption increased steadily, starting at 6.5 thousand tonnes in 2010/11 and reaching 52.4 thousand tonnes in 2021/22. Initially, there was gradual growth in consumption, with the volume rising to 9.7 thousand tonnes in 2013/14. However, there was a slight decline in the following year, with the volume dropping to 8.5 thousand tonnes in 2014/15. From 2015/16 onwards, there was a significant and consistent increase in consumption each year. The volume rose to 11.8 thousand tonnes in 2015/16, 12.2 thousand tonnes in 2016/17, and 11 thousand tonnes in 2017/18. The growth rate accelerated further in the subsequent years, with the volume reaching 12.5 thousand tonnes in 2018/19, 14.8 thousand tonnes in 2019/20, and 15.7 thousand tonnes in 2020/21. One notable observation is the substantial surge in consumption in 2021/22, where the volume skyrocketed to 53.6 thousand tonnes.

The growing market for Ethiopian food and beverages can be attributed to the increasing demand from the large Ethiopian diaspora community. The substantial increase in value and volume in recent years, particularly in 2020/21 and 2021/22, indicates that the Ethiopian food and beverage industry has significant potential for further expansion. This presents opportunities for local businesses to scale up their operations, introduce new products, and explore export markets.

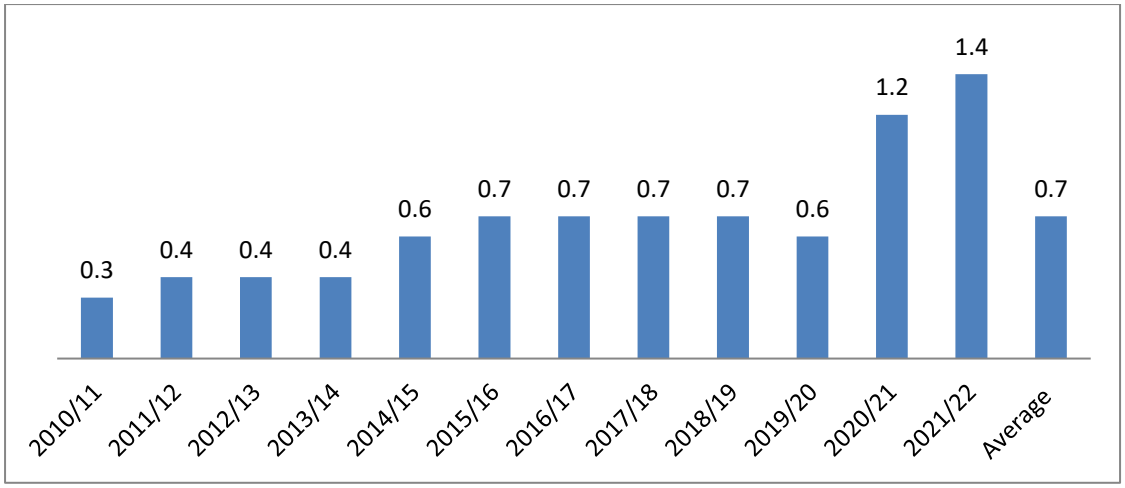
Figure 50: Food and beverage unit price in USD per kg



Source: Author's calculation based on ECC (2010/11- 2021/22)

Between 2010/11 and 2012/13, there was a mix of fluctuations in unit prices. The price increased from 1.2 USD per kg in 2010/11 to 1.6 USD per kg in 2011/12 but then decreased to 1.3 USD per kg in 2012/13. In 2013/14, there was a slight increase in the unit price to 1.5 USD per kg, followed by a minor decline to 1.4 USD per kg in 2014/15. From 2015/16 to 2017/18, there was a consistent upward trend in unit prices. The price increased from 1.4 USD per kg in 2015/16 to 1.6 USD per kg in 2016/17. It remained stable at 1.6 USD per kg in 2017/18. However, starting from 2018/19, there was a downward trend in unit prices. The price dropped to 1.2 USD per kg in 2018/19 and further decreased to 1.1 USD per kg in 2019/20. The most significant change occurred in 2020/21 when the unit price decreased sharply to 0.8 USD per kg, indicating a considerable decline compared to previous years. In 2021/22, there was a slight recovery as the unit price increased to 1.1 USD per kg.

Figure 51: Food and beverage share to total merchandize export (2010/11- 2021/22)



Source: Author's calculation based on ECC (2010/11- 2021/22)

Food and Beverages exports have had a consistently low share throughout the analysed period ranging from 0.3% to 1.4%, with some upward trend. From 2010/11 to 2012/13, the food and beverage share remained constant at 0.4% of the total export. In 2013/14, there was no change, and it remained at 0.4%. However, in 2014/15, we observe a significant increase to 0.6%, indicating a rise in the export share of food and beverages. This increasing trend continues in the subsequent years, with a gradual increase to 0.7% in 2015/16, 2016/17, 2017/18, and 2018/19. During this period, the food and beverage share to total export remained relatively stable.

In 2019/20, there was a slight decline to 0.6% in the food and beverage export share. However, in the following year, 2020/21, there was a notable increase to 1.2%. The most recent data point available, 2021/22, shows a further increase to 1.4%. On average, over the entire period analysed (2010/11 to 2021/22), the food and beverage share to total export stands at 0.7%. From this trend, we can observe that the food and beverage sector's contribution to Ethiopia's total exports has increased steadily over the years, with noticeable growth in recent years. This indicates the growing importance and competitiveness of the Ethiopian food and beverage industry in the international market.

4.3. Diversification

Economic growth is driven by the diversification of industries into new products that are progressively more complex. This process involves expanding into higher value-added activities and developing innovative goods and services that contribute to the overall advancement of the economy. In the following section we will examine Ethiopian diversification effort in terms of product and destination.

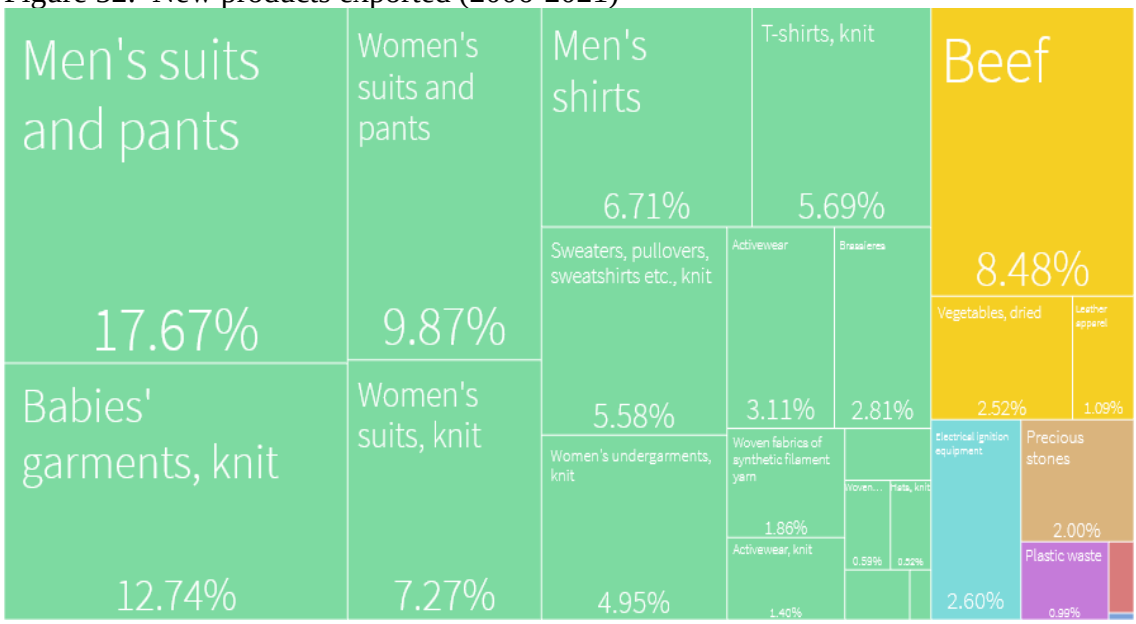
4.3.1. Number of Ethiopian Export Items

Looking at the Table 3, we can see that Ethiopia has a consistently high number of export items based on HS 6 code in comparison to other African countries listed from 2010-2020. In 2010, Ethiopia had 1533 export items based on HS 6, which increased slightly to 1539 in 2011. There was a slight decrease in 2012 with 1536 export items, and then a more significant decrease in 2013 with 1499 export items. However, Ethiopia's export items have been increasing significantly since 2014, with 1717 export items in 2014, 1652 in 2015, and 1688 in 2016. There was a further increase to 1785 in 2017, before a slight decrease to 1520 in 2018. In 2019, Ethiopia had 1667 export items, and there was a slight decrease to 1579 in 2020.

As shown in Figure 51, among newly added products, majority products are textile products and some with meat and meat products, vegetables, precious metals, electrical ignition equipment. Though Ethiopia has made efforts to diversify its product portfolio, the volume of these new products is not substantial enough to generate significant growth and market penetration of these products have been insufficient to make a substantial impact on the country's overall export growth.

In general, Ethiopia appears to have a more stable and consistent number of export items compared to some of the other countries listed. For example, Nigeria had a very high number of export items (1510) in 2011, but this decreased significantly in subsequent years, with only 359 export items in 2020. Egypt, Arab Republic, on the other hand, had a higher number of export items than Ethiopia in most years, but there is quite a bit of fluctuation in the numbers over time. Overall, while Ethiopia may not have the highest number of export items based on HS 6 code among all the countries listed, it does have a relatively consistent and stable level, with some growth over the years.

Figure 52: New products exported (2006-2021)



Source: The Atlas of Economic Complexity, 2021

Table 3: Number of export items based on HS 6

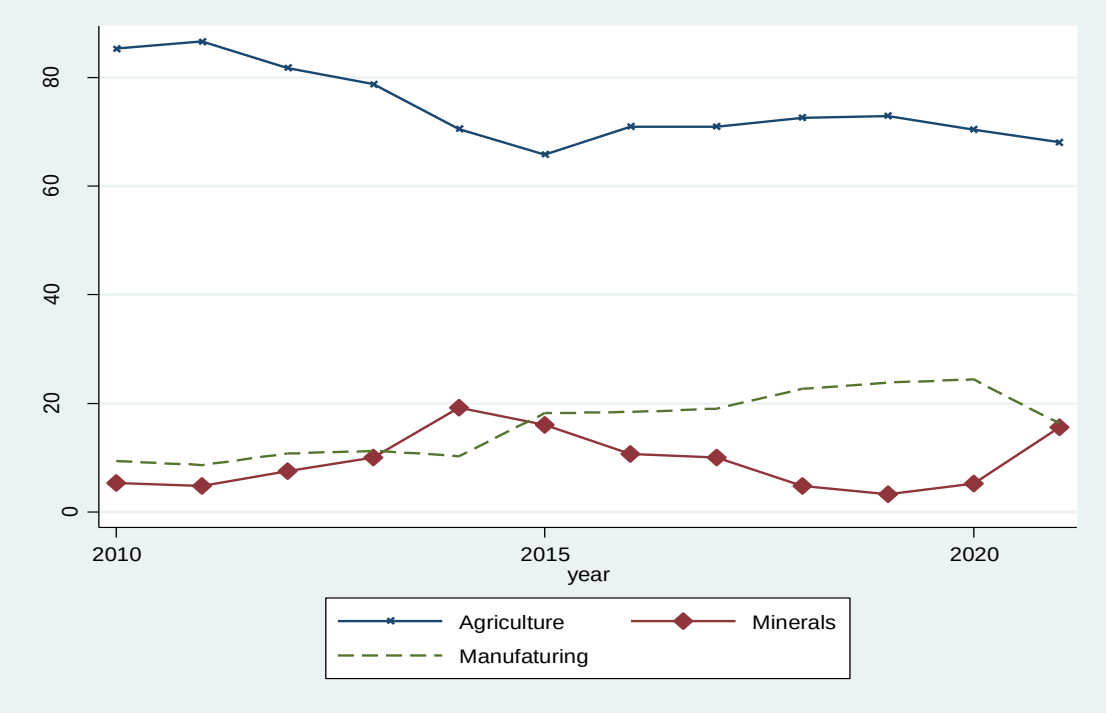
Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Ethiopia	1533	1539	1536	1499	1717	1652	1688	1785	1520	1667	1579
Egypt, Arab Rep.	2903	2783	2751	2713	2637	2539	2541	2650	2585	2450	2832
Ghana	1474	1844	1938	2282	2128	2102	1797	1980	1986	2147	
Kenya	3389			3277		3399	3377	3306	3256	3242	3232
Malawi	1278	1213	1224	1236	1199	1142	1110	1156	1260	1208	1034
Nigeria	873	1510	972	1228	990	1002	274	328	491	434	359
Rwanda	765	858	503	1018	1069	1140	1023	1309	2039	2243	
South Africa	4567	4553	4522	4506	4505	4511	4507	4476	4466	4460	4439
Sudan			317	273	462	330	442	307	558		
Tanzania	2230	2343	2424	2330	2362	2156	2167	2096	2200	2327	2289
Togo	595	645	603	654	615	767	741	665	649	699	643
Uganda	2149	2188	2324	2419	2420	2440	2364	2172	2186	2231	2110

Source: Trade map and WITS

The relatively consistent and stable level of export items based on HS 6 code that Ethiopia has implies that the country has a diverse range of products and services that it is able to offer to international markets. This could be due to the country's efforts to diversify its economy and reduce its dependence on agriculture, which has traditionally been the mainstay of the Ethiopian economy. As shown in figure 53, agriculture is the dominant sector in Ethiopia's merchandise

export, followed by manufacturing, while minerals have a relatively small share, accounting on average for 74.5%, 16.1% and 9.4 % respectively over the study period.

Figure 53: Sectoral contribution to merchandize export (2010/11- 2021/22)



Source: Authors calculation based on Comtrade

Having a diverse range of export items enables Ethiopia to spread its risks across multiple products and services, reducing its vulnerability to fluctuations in demand for any one particular product or service. This also helps to create a more resilient economy, which is better able to withstand external shocks such as changes in global economic conditions or commodity prices.

Furthermore, a stable and consistent level of export items over time can help to build confidence among international trading partners, who may be more willing to engage in long-term business relationships with Ethiopian companies. This, in turn, can lead to increased investment and job creation within Ethiopia, which can have positive impacts on the country's overall economic development.

In general, the fact that Ethiopia has a relatively stable and consistent level of export items based on HS 6 code is a positive sign for the country's economy and suggests that it has the potential to continue growing and diversifying its exports in the future. The consistent and stable level of export items based on HS 6 code that Ethiopia has implies that the country could consider

adopting policies that support its efforts to further diversify its economy and expand its export market.

4.3.2. Export partners

Looking at the table below, we can see that Ethiopia had fewer export partners than most of the other African countries listed in 2010 but gradually increased its number of partners over the years. Ethiopia had 135 export partners in 2010 which increased to 147 in 2020. Compared to Egypt, which had the highest number of export partners in this group of countries, Ethiopia had significantly fewer partners. Egypt had 177 export partners in 2010, which increased to 178 by 2020. Similarly, South Africa had the second-highest number of export partners, with 218 partners in 2010 and 215 partners in 2020.

Other countries like Kenya and Tanzania had more export partners than Ethiopia in some years, but fewer in others. For instance, Kenya had 164 export partners in 2010, which increased to 182 in 2020, while Tanzania had 157 export partners in 2010, which decreased to 142 in 2020.

Nigeria's number of export partners fluctuated over the years, with a peak of 156 partners in 2015 before dropping to 111 partners in 2019 and then increasing slightly to 115 partners in 2020. Malawi had the fewest number of export partners among these countries throughout the period covered in the table, with only 109 partners in most years.

Overall, while Ethiopia's number of export partners was not as high as some of the other countries, it did show consistent growth over time, which could be seen as a positive sign for the country's economy.

The number of export partners that a country has can be an important indicator of its trade relationships and economic growth prospects. Having more export partners generally means that a country has access to a larger market, which can lead to increased trade and economic growth, while fewer export partners may limit a country's ability to expand its exports and diversify its trade relationships.

In the case of Ethiopia, although it had fewer export partners than some of the other African countries listed in the table, the fact that its number of export partners consistently increased over the years is a positive sign. It suggests that Ethiopia has been able to steadily expand its export

markets and develop new trade relationships, which could contribute to its economic growth over the long term.

Table 4: Number of export partners

Country Name	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Egypt, Arab Rep.	177	170	169	172	173	166	170	169	171	173	178
Ethiopia	135	142	143	141	144	154	146	144	148	149	147
Kenya	164	NA	NA	169	NA	181	174	173	176	179	182
Malawi	123	125	123	115	109	109	113	114	110	116	110
Nigeria	145	135	148	148	151	156	115	116	116	111	115
South Africa	218	222	219	219	224	217	218	223	222	223	215
Sudan	NA	NA	112	105	145	98	142	98	134	NA	NA
Tanzania	157	149	146	158	150	155	158	151	147	151	142
Uganda	136	139	138	141	140	130	136	134	140	137	132
Togo	80	83	80	83	80	89	87	92	85	93	99

Source: WITS

However, it is also worth noting that having a large number of export partners does not necessarily guarantee economic success, as the quality of those trade relationships and the competitiveness of the goods being exported are also important factors. Therefore, while the number of export partners is a useful metric for assessing a country's trade relationships, it should be considered alongside other indicators to get a more complete picture of a country's economic performance.

As discussed above, Ethiopia’s trade landscape showcases a range of significant partnerships with various countries. Among them, Somalia emerges as the largest trade partner, commanding an 11.1% share in exports. This highlights the robust trade relationship between the neighbouring African nations. China follows closely as Ethiopia's second-largest trade partner, with a notable 9.3% share. The substantial involvement of China underscores its importance as a destination for Ethiopian exports, solidifying economic ties. The Netherlands and Germany holds a prominent position among Ethiopia's trade partners, each accounting for about 8 % of exports. The United States and Saudi Arabia represents a significant market, holding a share of about 7 % each. The United Arab Emirates (UAE) maintains a notable trade partnership with Ethiopia, with a 4.3% share. Japan acts as a moderate trade partner, with an export share of 3.5%. Similarly, Djibouti, a neighbouring country and major port hub, holds a 3.4% trade share. Ethiopia relies on Djiboutian ports for international trade, underscoring the importance of their partnership. Israel represents a

notable trade partner with a 3.3% export share. The remaining countries collectively contribute 8.8% to Ethiopian exports, diversifying its export destinations.

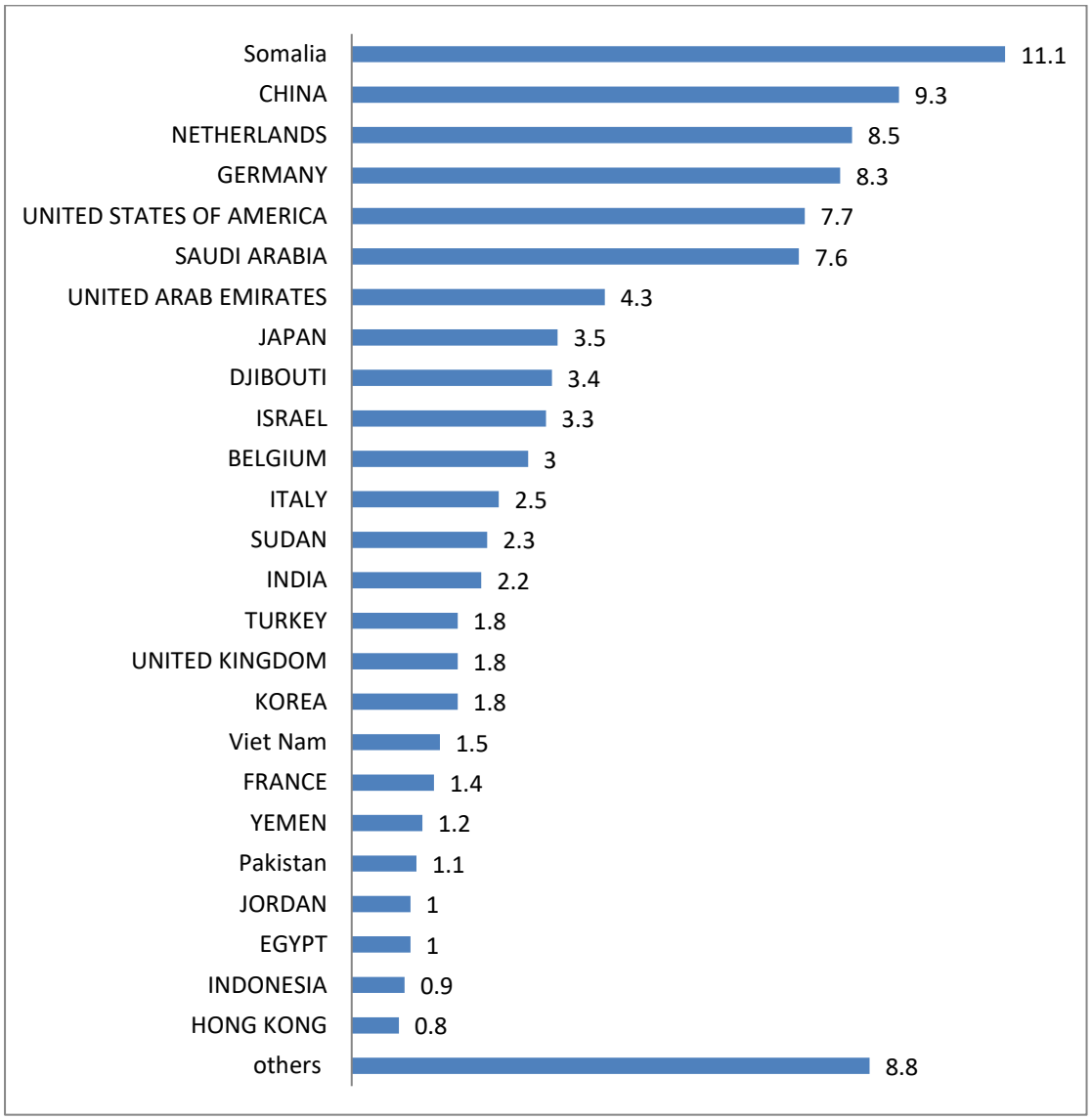
China, Japan, India, Korea, Pakistan, Indonesia, Hong Kong, and Vietnam are Asian trade partners mentioned in the table. Together, they represent around 22% of Ethiopia's total exports. This indicates Ethiopia's growing trade engagement with Asian markets, particularly China as the second-largest trade partner. It suggests opportunities for trade diversification, capitalizing on the economic growth, and demand in Asian countries.

African countries collectively account for a significant share of Ethiopian exports approximately 18 %. This highlights the importance of regional trade within Africa and suggests Ethiopia's efforts to strengthen economic ties with its neighbouring countries. Proximity, shared borders, and established regional economic communities may contribute to the strong trade ties between Ethiopia and African countries.

Netherlands, Germany, Belgium, Italy, the United Kingdom, France, and Turkey are the major European trade partners listed in the table excluding of gold export. Combined, they make up approximately 30.9% of Ethiopian exports. This signifies the significance of European markets for Ethiopian goods and reflects historical ties, investment flows, and potential market access facilitated by trade agreements or preferences.

Major Middle Eastern trade partners include Saudi Arabia, UAE, Yemen, Egypt, Jordan and Israel. Collectively, these countries contribute to 18.1% of Ethiopian exports. The Middle East's proximity, economic ties, and cultural similarity contribute to its importance as a trade region for Ethiopia. The United States represents the major North American trade partner for Ethiopia, accounting for 7.7% of exports. This demonstrates Ethiopia's trade relationship with one of the world's largest economies and signals opportunities for expanding bilateral trade and investment. Countries such as Indonesia, Pakistan, Egypt, Jordan, and Hong Kong, though with relatively smaller shares, show potential as emerging trade partners for Ethiopia.

Figure 54: Major trade destination of Ethiopia (2010/11- 2021/22)



Source: Author's calculation based on ECC (2010-2022)

The policy implications of Ethiopia's export partner numbers depend on the government's priorities and objectives. If the goal is to further expand Ethiopia's export markets, then policies that encourage more foreign investment, reduce trade barriers, and promote the competitiveness of Ethiopian goods in international markets could be helpful.

Another important policy consideration is improving the quality of Ethiopia's exports. While increasing the number of export partners is a positive sign, it is also crucial to ensure that the goods being exported meet or exceed international standards in terms of quality, safety, and environmental sustainability. The government can incentivize businesses to invest in research and development to improve the quality of their products and increase their competitive advantage in global markets.

Finally, the government can also consider implementing policies aimed at diversifying Ethiopia's export markets and reducing its reliance on a few key partners. This could involve exploring new trade opportunities with countries outside of Africa, developing new industries, and increasing support for small and medium-sized enterprises (SMEs) to help them participate more effectively in global value chains. Overall, the policy implications of Ethiopia's export partner numbers suggest the need for a comprehensive approach to trade policy that considers multiple factors, including the competitiveness of Ethiopian goods, the quality of those goods, and the diversity of export markets.

4.3.3. Export Market Penetration (EMP)

This indicator[4] measures the extent to which a country's exports are reaching international markets. The indicator measures a country's export penetration into established markets. It's determined by dividing the number of countries that import a specific product reported by the exporter, by the total number of countries importing the product in that year (WITS, 2020). A low export penetration could indicate trade barriers hindering firms from expanding into new markets. Table 5 presents the index of export market penetration for Ethiopia and selected African countries.

Ethiopia's export market penetration has shown a gradual increase from 2010 to 2020. The values for Ethiopia have consistently increased over the years, starting at 2.08% in 2010 and reaching 2.77% in 2020. This indicates that Ethiopia has been able to expand its presence in international markets and increase its share of exports. However, compared to Egypt, Kenya, Nigeria and South Africa, Ethiopia's export market penetration is relatively lower, indicating challenges or limitations in terms of competitiveness, product diversification, or access to global markets. Addressing these challenges could be crucial for Ethiopia to enhance its export performance. The data also highlights potential market opportunities for Ethiopia. As other African countries have achieved higher export market penetration, Ethiopia can learn from their experiences, identify successful strategies, and explore new avenues to increase its own market penetration.

Table 5: Market Penetration

[4] Mathematically it is represented as $EMP\ i = \sum_{k=\Omega_t} \sum_j Y_{kj}^i / \sum_{k=\Omega t} \sum_j Z_{kj}$, where Ωi is the set of products exported by country i, j indexes importers = 1 if i exports product k to j, Z = 1 if j imports good k

Country Name	2010	2015	2020
Egypt	6.64	6.69	6.52
Ethiopia	2.08	2.15	2.77
Kenya	3.30	3.70	3.41
Malawi	1.54	1.56	1.60
Nigeria	2.75	2.95	3.19
South Africa	13.95	14.31	12.52
Tanzania	2.34	2.59	2.52
Togo	1.65	1.77	1.65
Uganda	1.83	2.10	2.09

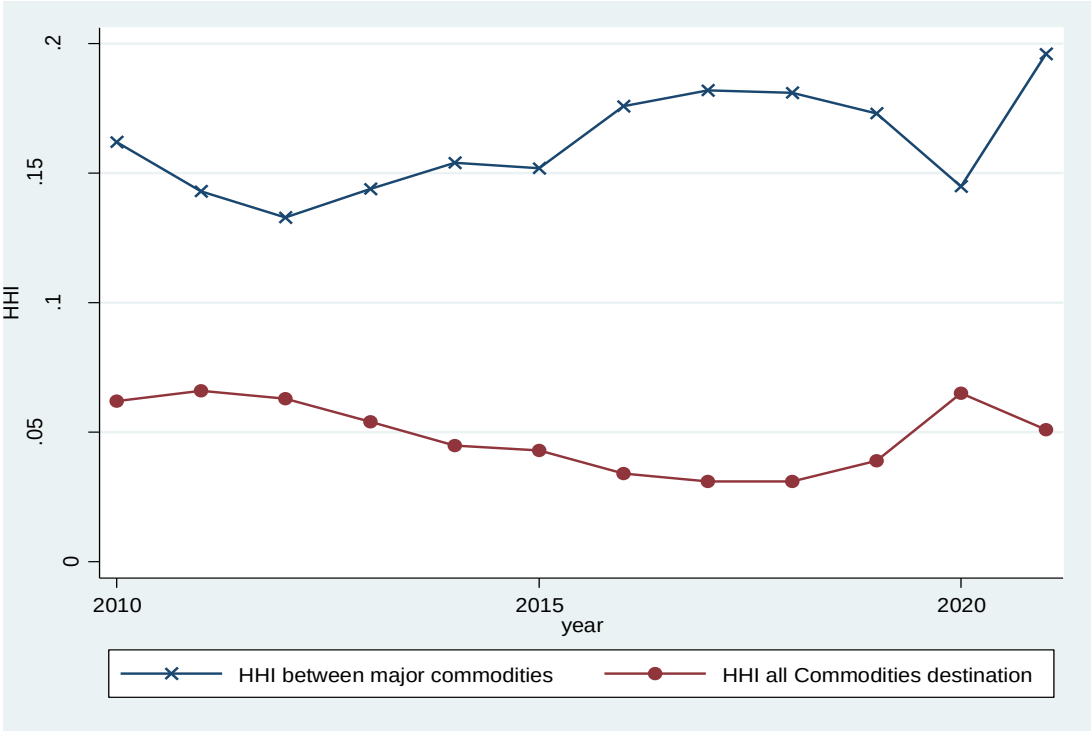
Source: WITS

4.3.4. Diversification among Major Export Products

The results presented in Figure 55 show the Herfindahl-Hirschman Index (HHI) among Ethiopian commodity exports from 2010 to 2021. The HHI measures the concentration of exports among major commodities, with lower values indicating higher diversification. We observe a declining trend in the HHI values from 2010 to 2012, indicating a gradual increase in export diversification during this period. However, in subsequent years, from 2013 to 2019, there was a slight increase in the HHI values, suggesting a slight decrease in export diversification. This trend was followed by another decline in the HHI value in 2020, indicating a partial recovery in export diversification, before a significant jump in 2021. The HHI value among major commodities has been fluctuating over the years, ranging from 0.133 in 2012 to 0.196 in 2021, over all showing a moderately diversified export portfolio.

The fluctuation in HHI values over the years among major exportable items reflects the changing composition of Ethiopian commodity exports and the extent to which these exports are concentrated within a few major commodities. The decline observed in export diversification from 2013 to 2019 may be attributed to factors such as changes in international market demand, fluctuations in global commodity prices, and the country's own production limitations and preferences. Recently, the efforts to diversify have also been affected by COVID-19, especially in the fields of textiles and garments and horticulture (flowers, fruits, and vegetables).

Figure 55: HHI among major export items and destination (2010/11- 2021/22)



Source: Author's calculation based on ECC (2010/11- 2021/22)

The Herfindahl-Hirschman Index (HHI) values for various Ethiopian export commodities between 2010 and 2021 provide valuable insights into the level of concentration/diversification in Ethiopian export markets. The HHI value for major commodities has been fluctuating over the years, ranging from 0.133 in 2012 to 0.196 in 2021. This suggests that Ethiopia's export portfolio diversification has been inconsistent. Furthermore, the HHI value for all commodities and destinations has been fluctuating over the years, ranging from 0.031 in 2018 to 0.065 in 2020. This indicates that Ethiopia's exports in general are not well diversified and are concentrated in only a few destinations.

4.3.5. Diversification across Destinations

As shown in table 6, the HHI for all commodities destined for Ethiopia fluctuated over the years, ranging from 0.031 in 2018 to 0.065 in 2020. From 2010 to 2012, the trend was almost stagnant around 0.061, with a slight concentration in Ethiopian commodity exports across destinations during that period. Subsequently, the HHI across destinations started to decline from 2013 onwards, reaching its lowest point in 2017 at 0.031, indicating a decrease in concentration and a move towards more diversified commodity exports across destinations. This positive

development is due to increase in bilateral trade agreements and using of preferential trade agreements. Nonetheless, the trend reversed in 2020 and 2021, with the HHI increasing again to 0.065 and 0.051, respectively due to Covid 19 restrictions in some countries and production. This indicates a recent increase in concentration and a reduction in diversification in Ethiopian commodity exports across destinations. Overall, Ethiopia's exports in general are well diversified across destinations and are not concentrated in only a few destinations, as the value of HHI is below 0.15.

Table 6: Export Destination Diversification for Major Commodities

particulars	HHI, Market Destinations												
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	average
Coffee	0.152	0.134	0.122	0.110	0.106	0.101	0.095	0.102	0.096	0.101	0.092	0.092	0.109
Oilseed	0.410	0.372	0.327	0.383	0.421	0.391	0.281	0.204	0.139	0.161	0.156	0.155	0.283
Leather and Leather Product	0.162	0.161	0.163	0.147	0.183	0.188	0.214	0.308	0.218	0.276	0.222	0.171	0.201
Flower	0.718	0.699	0.670	0.669	0.662	0.621	0.605	0.600	0.567	0.486	0.497	0.483	0.606
Food and Beverages	0.152	0.179	0.167	0.134	0.137	0.159	0.154	0.154	0.150	0.168	0.134	0.226	0.160
Fruits and Vegetables	0.234	0.246	0.308	0.376	0.396	0.405	0.387	0.370	0.290	0.322	0.309	0.323	0.331
Live Animals	0.223	0.195	0.174	0.288	0.215	0.315	0.255	0.336	0.549	0.416	0.328	0.338	0.303
Meat and Meat Products	0.422	0.399	0.452	0.479	0.504	0.498	0.463	0.448	0.469	0.454	0.476	0.423	0.457
Pulses	0.090	0.099	0.077	0.067	0.089	0.126	0.095	0.108	0.118	0.102	0.123	0.101	0.100
Textile and Garment	0.273	0.380	0.329	0.353	0.330	0.254	0.178	0.215	0.392	0.467	0.502	0.510	0.349
HHI all Commodities destination	0.062	0.066	0.063	0.054	0.045	0.043	0.034	0.031	0.031	0.039	0.065	0.051	0.049

Source: Author's calculation based on ECC (2010/11- 2021/22)

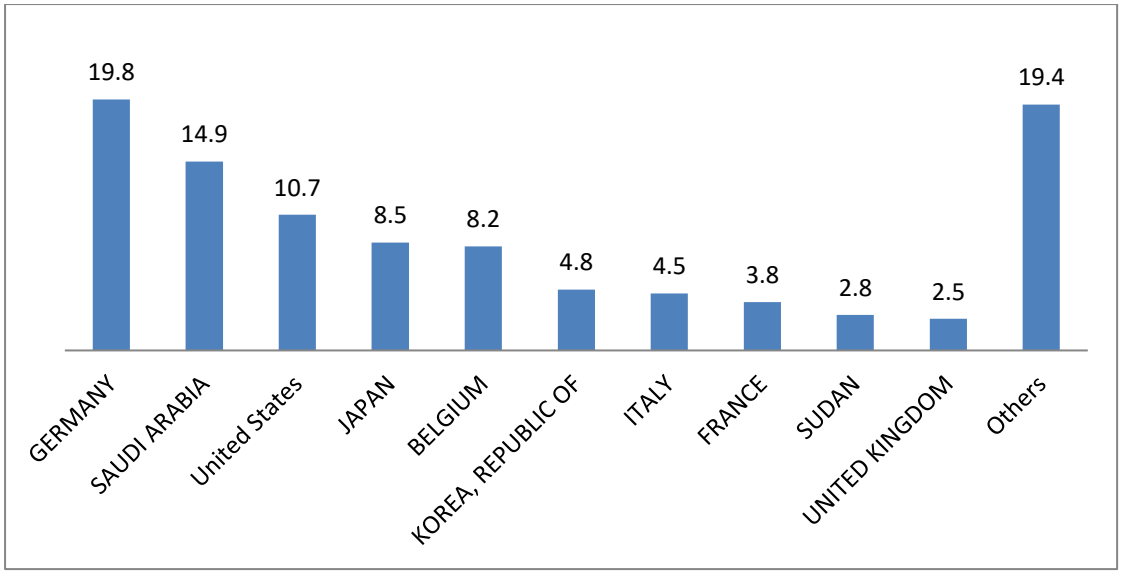
The findings from this section shed light on the changing patterns of Ethiopian commodity export diversification across destinations over the past decade. The overall trend suggests a move towards greater diversification until 2017, followed by a slight setback in the subsequent years. These fluctuations in diversification levels highlight the dynamic nature of Ethiopia's commodity export market. Factors such as changes in global trade dynamics, market demands, and domestic policies may have influenced the concentration or diversification of Ethiopian commodity exports during the study period. It is worth exploring these factors in further research to better understand the drivers behind the observed trends.

While the decrease in concentration from 2013 to 2017 is a positive development, the recent increase in concentration in 2020 and 2021 raises concerns about the resilience and stability of Ethiopia's commodity export sector. A high level of concentration can make the country vulnerable to shocks and disruptions, as it becomes overly dependent on a few key markets. Therefore, policymakers and industry stakeholders need to closely monitor and address the drivers behind this recent increase in concentration to ensure long-term sustainability and resilience in Ethiopian commodity exports.

To have a more detailed understanding of the concentration or diversification of Ethiopia's exports, it is important to examine specific export sectors to allow targeted interventions and policy recommendations. Table 4 shows export destination diversification from 2010 to 2021 for major export items.

For coffee exports, the HHI values range from 0.092 to 0.152 over the twelve-year period. This suggests a relatively low level of concentration, indicating that coffee exports are spread out across destinations and hence well diversified. However, there is a slight increase in concentration towards the end of the period. As shown in Figure 53, there is no high concentration of coffee in terms of destination. Germany is relatively the largest destination for Ethiopia's coffee exports, accounting for 19.8% of the total. Saudi Arabia is the second-largest destination, with a share of 14.9%. This indicates a significant demand for Ethiopian coffee in the Middle Eastern market, specifically in Saudi Arabia. The United States accounts for 10.7% of Ethiopia's coffee exports. Japan and Belgium hold about 8% each as destinations for Ethiopian coffee exports. Korea, Italy, and France each account for about 4% of Ethiopia's coffee exports. Sudan accounts for 2.8% of Ethiopia's coffee exports. This suggests that Ethiopian coffee is also consumed within the African region. The category "others" represents a combined share of 19.4%. The "others" category represents a notable share, indicating that Ethiopian coffee has the potential to expand into new markets and reach even more consumers globally.

Figure 56: Major destination of Coffee

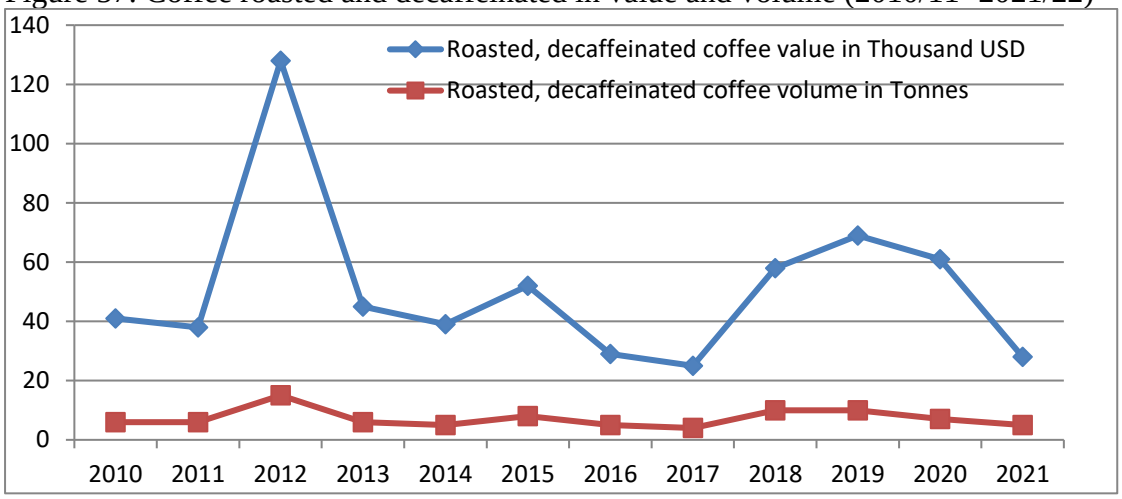


Source: Author's calculation based on ECC (2010/11- 2021/22)

When examining the effort of the vertical diversification of coffee (value addition), specifically the process of roasting and decaffeinating, and the data reveals that there have been fluctuations in the value and volume of production in Ethiopia over the years. The highest values and volumes were recorded in 2012 and 2019, while the lowest values and volumes were observed in 2017. It suggests that there may be challenges or factors influencing the consistency of this vertical diversification effort. The highs and lows recorded over the years indicate a certain degree of instability in the market for processed coffee.

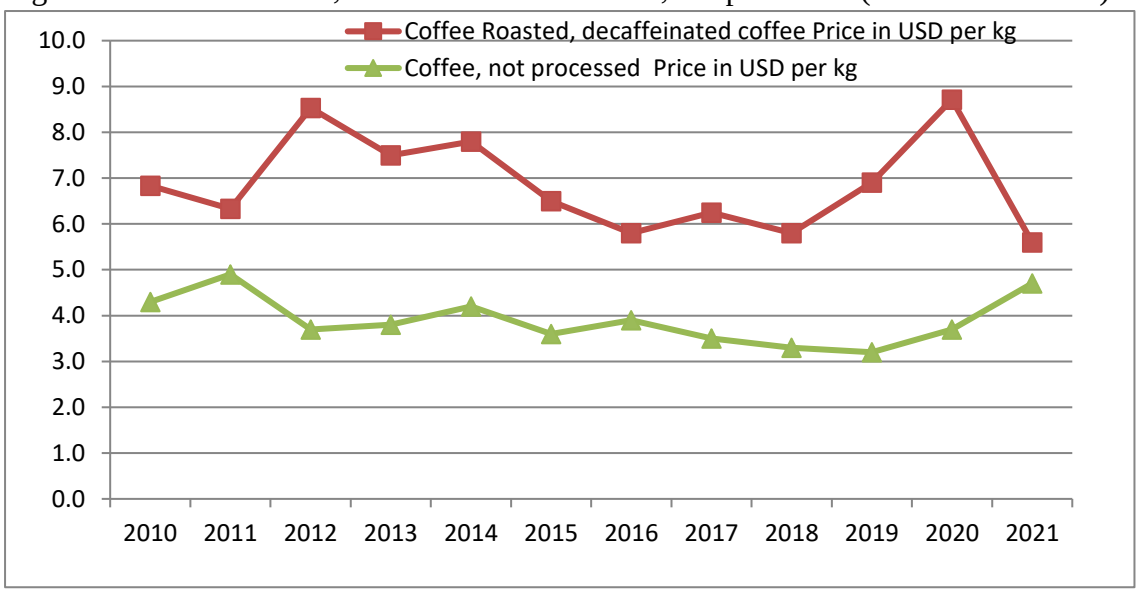
It is notable that the proportion of processed coffee to the overall coffee export is relatively insignificant. The negligible share of processed coffee in overall coffee exports implies that it has not yet gained significant traction or demand in international markets. This suggests that there may be limitations or barriers hindering the growth and marketability of roasted, decaffeinated coffee from Ethiopia.

Figure 57: Coffee roasted and decaffeinated in value and volume (2010/11- 2021/22)



Source: Author's Computation based on MoTRI (2010-22)

Figure 58: Coffee roasted, decaffeinated Vs. coffee, not processed (2010/11- 2021/22)



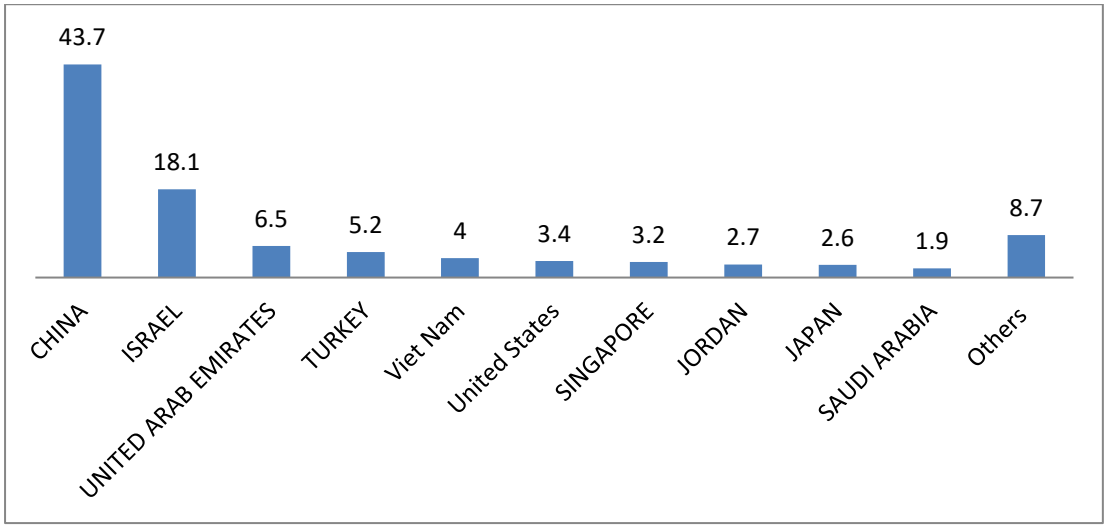
Source: Author's Computation based on MoTRI,(2010-22)

In terms of prices, both processed (roasted and decaffeinated) and non-processed coffee prices demonstrate fluctuations and variations throughout the study period. On average, the price of processed coffee is approximately three USD higher than that of non-processed coffee. This suggests that there is a perceived value or premium associated with the additional processing and preparation involved in producing roasted, decaffeinated coffee. This price difference may indicate that there is a market segment willing to pay more for processed coffee due to factors such as taste, convenience, or perceived quality and additional processing time.

Overall, these findings suggest that while there are opportunities in the vertical diversification of coffee in Ethiopia through roasting and decaffeinating, there may also be challenges and a need to address factors that affect the stability, market share, and growth of this segment.

The HHI values for oilseed exports have been quite volatile, ranging from 0.139 in 2018 to 0.421 in 2014, implying that Ethiopia's oilseed exports are concentrated in only a few destinations, and hence are less diversified. Ethiopia heavily relies on China as the primary buyer of its oilseed exports, accounting for a substantial 43.7% share. This heavy dependence on China poses inherent risks since any changes in demand or trade policies by China could significantly impact Ethiopia's oilseed industry. Following China, Israel stands as the second-largest destination with an 18.1% share, indicating a strong trade relationship between Ethiopia and Israel, specifically for oilseed exports. However, it is encouraging to note that Ethiopia has made efforts to diversify its market reach by exporting oilseeds to multiple destinations. The United Arab Emirates holds a moderate 6.5% share, showcasing a significant level of export activity from Ethiopia to this country. Turkey accounts for 5.2% of the oilseed export share, whereas Vietnam holds a relatively smaller but still notable share of 4.0%.

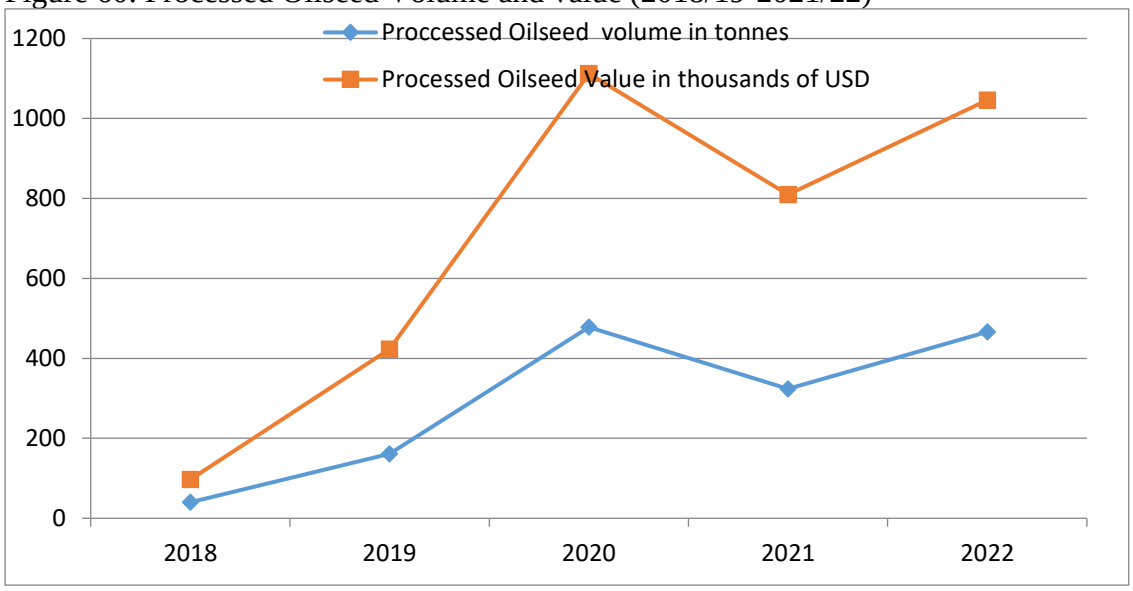
Figure 59: Major Destination of Oilseed



Source: Author's calculation based on ECC (2010/11- 2021/22)

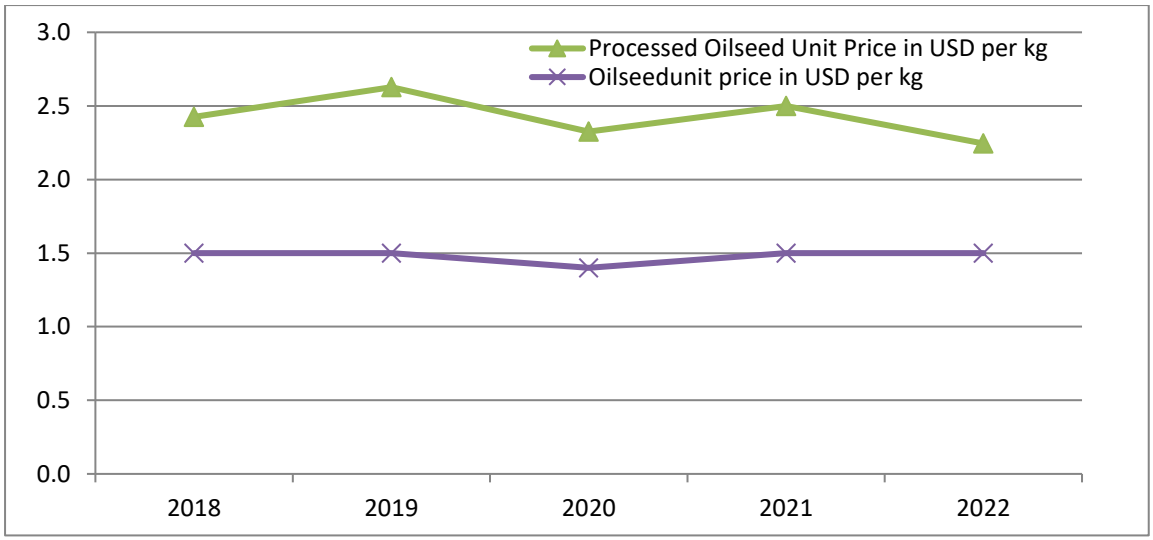
In attempt to value addition from oilseed in the form of sauces (e.g Tahina), there is an increment both in value and volume, albeit negligible share compared with total oilseed exports. As expected unit price is consistently higher than the unit price of sesame seeds. In all years, the processed oilseed unit price ranges from 2.2 to 2.6 USD per kg. This highlights opportunities for value addition within the oilseed sector. Developing processing capabilities, improving product differentiation, and expanding into higher-value markets can help Ethiopian exporters capture a larger share of the value chain and potentially command higher prices. Investing in quality control measures, branding, and product innovation can enhance the value proposition of Ethiopian oilseed exports.

Figure 60: Processed Oilseed Volume and value (2018/19-2021/22)



Source: Author's Computation based on MoTRI (2018-22)

Figure 61: Unit Prices of Processed oilseed Prices Vs. oilseed seed

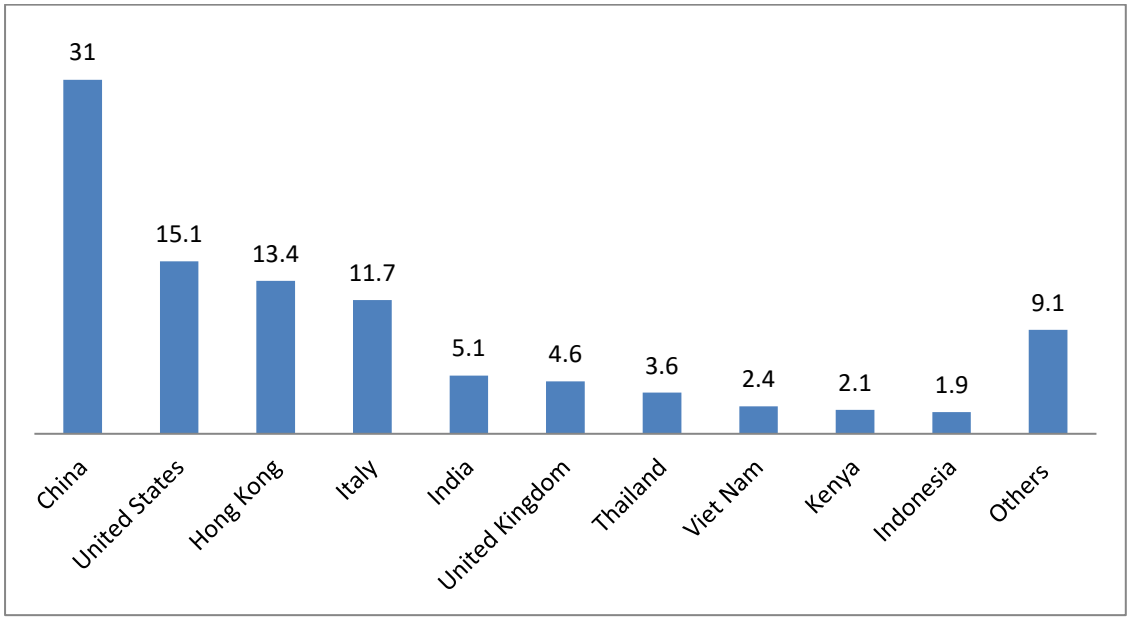


Source: Author's Computation based on MoTRI (2018/19-2021/22)

The HHI values for leather and leather product exports have been fluctuating over the years, ranging from 0.147 in 2013 to 0.308 in 2017, which suggests that Ethiopia's exports in this sector are not well diversified across destinations. China has the highest share percentage at 31.0%, and the United States follows with a share of 15.1%. Hong Kong holds a share of 13.4%. Italy accounts for 11.7% of the export destination share. The high share percentage for China, the United States, Hong Kong, and Italy indicates that these countries are currently the major importers of Ethiopian leather and leather products, accounting for about 71%. This suggests a concentration of market demand in these specific countries. While the top export destinations hold the majority of the share, there is still room for growth and diversification. Emerging

markets, like Thailand, Vietnam, Indonesia, and African countries, present opportunities for expansion.

Figure 62: Major destination of Leather and Leather Product

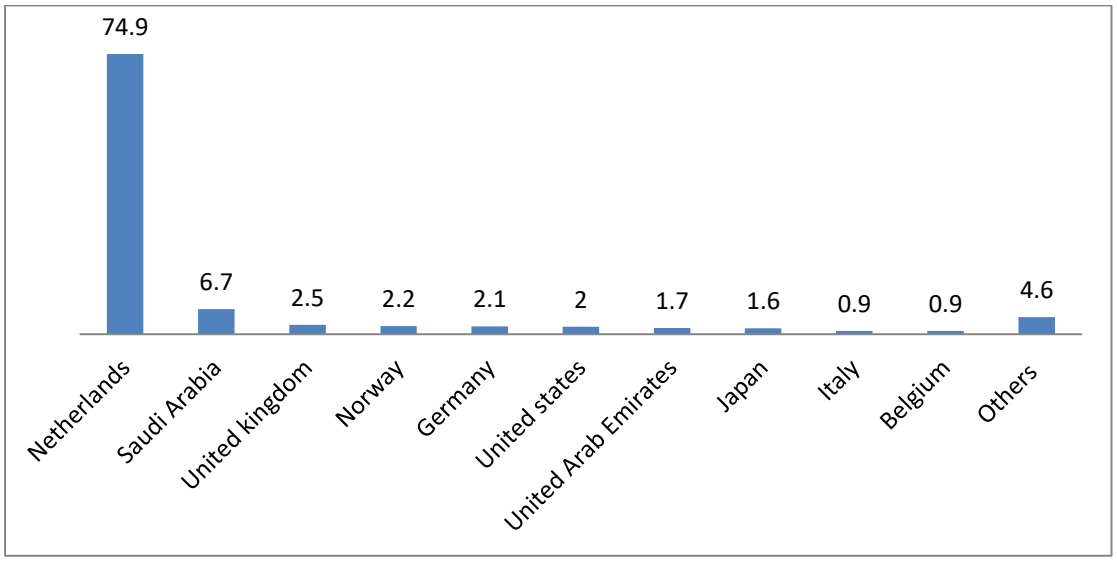


Source: Author's calculation based on ECC (2010/11- 2021/22)

The HHI values for Ethiopian flower exports range from 0.718 in 2010 to 0.483 in 2021. In 2010, the HHI value indicated that the Ethiopian flower industry was heavily reliant on a few destination markets with a relatively concentrated export distribution. However, by 2021, the HHI value would have reduced significantly. The decreasing HHI values over the years suggest that Ethiopian flower exporters have successfully tapped into new markets and reduced their dependence on a few specific destinations.

This diversification is crucial for the long-term sustainability of the flower industry, as it reduces the vulnerability associated with overreliance on a limited number of markets. The decreasing trend in HHI values also signifies that Ethiopian flower exporters have effectively identified and entered new markets in different regions across the globe. This diversification strategy has likely been facilitated by government support, industry collaborations, and effective marketing strategies.

Figure 63: Major Destination of Flowers



Source: Author's calculation based on ECC (2010/11- 2021/22)

Figure 63 shows the distribution of Ethiopian flower exports across destinations. The Netherlands accounts for the largest share at 74.9%. Saudi Arabia holds a relatively significant share of 6.7%. The United Kingdom, Norway, Germany, the United States, and the United Arab Emirates have shares ranging from 2.2% to 2.5% each.

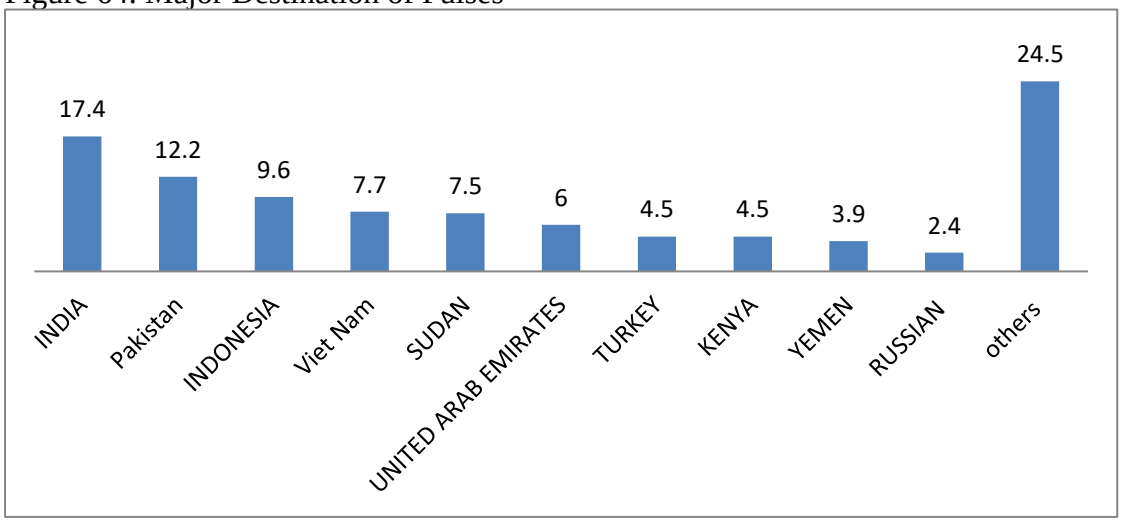
The pulse sector reveals a varying level of diversification over the period from 2010 to 2021. The HHI values ranged from 0.067 in 2013 to 0.126 in 2015, indicating good levels of diversification in the export destination market.

From 2010 to 2014, the HHI values for the destination of Ethiopian pulse exports remained relatively low, suggesting a good level of diversification. However, in subsequent years, the diversification in the pulse export sector showed some degree of concentration. Overall, the results suggest that although the Ethiopian pulse export sector experienced fluctuations in the level of diversification, the sector was well-diversified across the destination markets, and there is room for improvement in expanding the range of destination markets. This could enhance the resilience and competitiveness of the sector in the global market.

India is the largest destination for Ethiopia's pulse exports as well, accounting for 17.4% of the total share. Pakistan is the second-largest destination, with a share of 12.2%. With a share of 9.6%, Indonesia is another significant destination for Ethiopia's pulse exports. This implies that the Indonesian market has a considerable demand for Ethiopian pulses. Vietnam accounts for 7.7% of the share, indicating that Ethiopian pulses are exported to this country as well. Ethiopian

pulses are exported to Russia with a share of 2.4%, albeit to a lesser extent compared to other destinations. It suggests that there is a market for Ethiopian pulses in the Asian region at large. The UAE and Yemen have a share of 6.0 % and 3.9 %, respectively, indicating that Ethiopian pulses are exported to these Middle Eastern countries. Neighboring countries Sudan and Kenya have a share of 7.5% and 4.5%, respectively. This suggests that these neighboring countries also import a significant number of pulses from Ethiopia.

Figure 64: Major Destination of Pulses



Source: Author's calculation based on ECC (2010/11- 2021/22)

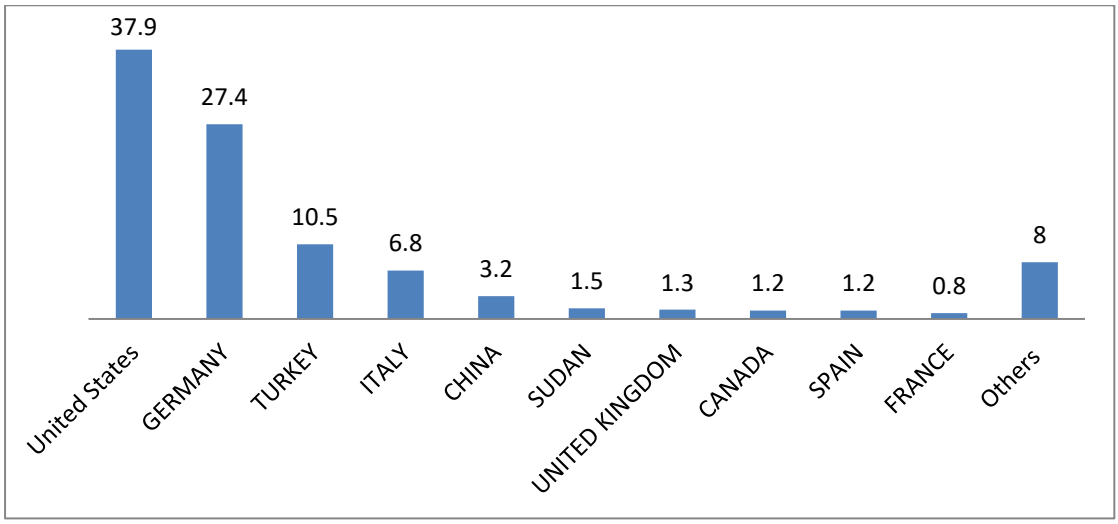
Currently, there are efforts being made to enhance the value addition of soybeans through the establishment of oil extraction facilities in Ethiopia. According to data from MoTRI, raw soybeans are typically sold at an average price of 600 per tonne. However, soybeans by-products, specifically soybean meal cake obtained after extracting some of its oil, are being exported at a price of 600 per ton. However, soybeans by-products, specifically soybean meal cake obtained after extracting some of its oil, are being exported at a price of 620 per tonne.

Based on interviews with experts from the ministry, it has been suggested to prioritize diversification efforts. Given the establishment and development of these industries, the government should contemplate the idea of prohibiting the export of raw soybeans.

The results obtained from the analysis of Ethiopian commodity export sector diversification for the textile and garment sectors indicate that there has been a fluctuation in the concentration of export destinations over the years. The Herfindahl-Hirschman Index (HHI) values range from 0.178 in 2016 to 0.51 in 2021, indicating less diversification in the sector's export destinations.

The decreasing trend in HHI values from 2010 to 2015 suggests a relatively higher diversification of export destinations during this period. However, the sector experienced a concentrated export pattern in the following years, with HHI values gradually increasing from 2016 to 2021. The peak in concentration observed in 2021, with an HHI value of 0.51, suggests a greater reliance on a few major export destinations for the textile and garment sectors. This may be due to Ethiopian access to preferential trade agreements with the EU and USA (EBA and AGOA, respectively) that allow Ethiopian products duty- and quota-free access.

Figure 65: Major Destination of Textile and Garments



Source: Author's calculation based on ECC (2010/11- 2021/22)

As shown in Figure 65, the United States is the largest destination for Ethiopia's textile and garment exports, accounting for 37.9% of the total. This indicates that Ethiopia has been able to take advantage of the trade benefits provided by AGOA. Germany, Italy, the United Kingdom, Spain, and France, which are listed as destinations in the graph, are all part of the European Union, accounting for a 37.5% share, similar to the United States. The substantial shares of exports to these countries suggest that Ethiopia has also been leveraging the benefits of EBA to export its textile and garment products to the European market. Turkey accounts for 10.5% of the exports, indicating a decent market presence for Ethiopian textiles and garments in Turkey. China's share is 3.2%, indicating a smaller market size compared to the previously mentioned countries.

Overall, the analysis implies that Ethiopia has been able to benefit from the preferential trade agreements, specifically AGOA and EBA, to expand its textile and garment exports to the United States and European Union markets. Relying heavily on these markets can lead to a dependency

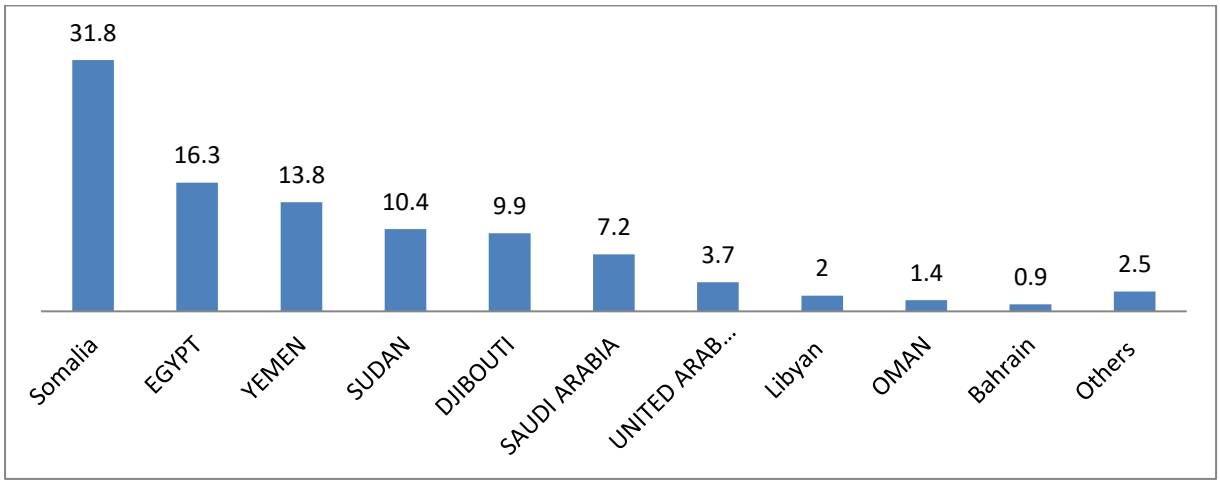
that may result in vulnerability if market conditions change or preferences are withdrawn (as Ethiopia suspended AGOA in 2022).

From the data, it can be observed that the HHI for the destination of live animals in the Ethiopian commodity export sector has fluctuated over the years. In 2010, the HHI was 0.223, indicating a moderately diversified market. However, the concentration of the market increased in the following years. The year 2018 saw a significant increase in market concentration, with the HHI reaching 0.549. In the subsequent years, market diversification improved, albeit at a slower pace. The HHI values for 2019, 2020, and 2021 were 0.416, 0.328, and 0.338, respectively. These values suggest that there was some degree of diversification in the destination countries for Ethiopian live animal exports during this period. Overall, the HHI for live animals shows high concentrations with limited destinations.

As shown in Figure 66, Ethiopia's live animal exports have specific destinations, with Somalia leading the pack at 31.8%, followed by Egypt at 16.3%, and Yemen at 13.8%. Sudan receives 10.4%, while Djibouti captures a significant share of 9.9%. These figures demonstrate the importance of neighboring countries in Ethiopia's live animal trade. Factors such as shared borders and historical trade connections contribute to these regional trade relationships.

It's interesting to note that neighboring countries like Somalia, Sudan, Djibouti, Yemen, and even Libya are not end users of the live animals. Instead, they import from Ethiopia and then re-export the livestock to the Middle East. While Saudi Arabia represents 7.2% of Ethiopia's live animal exports, the United Arab Emirates (UAE) accounts for 3.7%, Oman for 1.4%, and Bahrain for 0.9%. The reason for concentration in neighboring and Middle Eastern countries is that Ethiopia's favorable geographic location plays a significant role in facilitating live animal exports.

Figure 66: Major destination of live animals

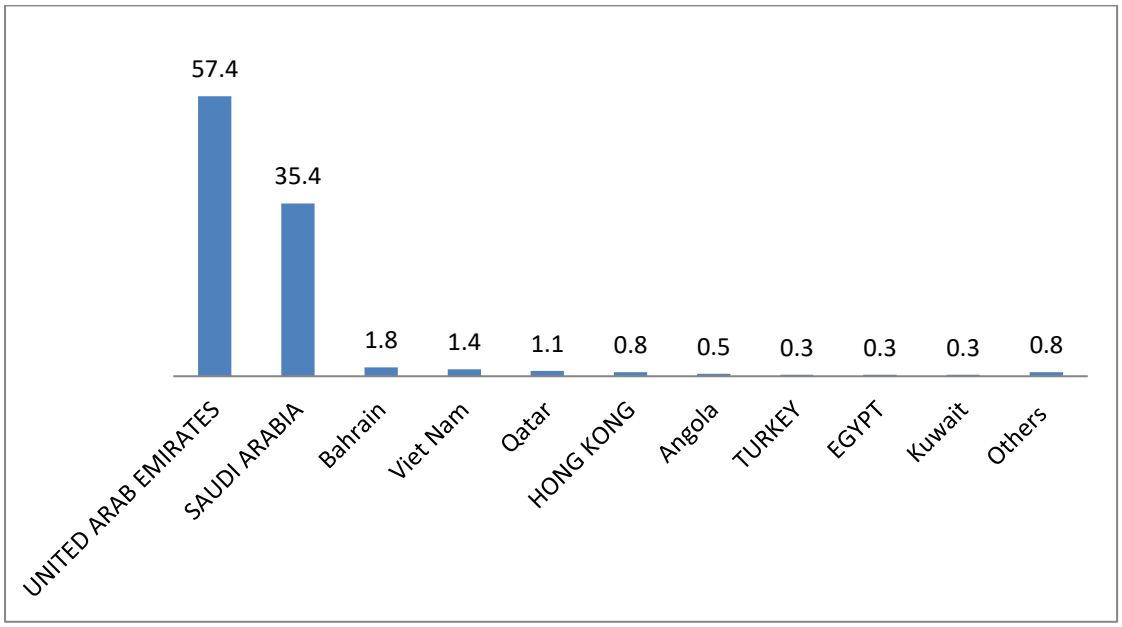


Source: Author's calculation based on ECC (2010/11- 2021/22)

Similarly, the diversification of the Ethiopian meat and meat product export sector has been limited over the years. The relatively high HHI (0.47) scores indicate a significant degree of concentration in the destination markets, which can pose risks for the sector. With a share of 57.4%, the UAE stands out as the primary destination for Ethiopian meat and meat products. Saudi Arabia is the second-largest importer, accounting for 35.4% of the share. The top two destinations, the UAE and Saudi Arabia, collectively cover approximately 93% of the total share. Although other individual countries shares are relatively small, they present emerging opportunities for Ethiopian exporters to tap into new markets and diversify their customer base.

The HHI for the destination of fruits and vegetables shows a fluctuating pattern over the years. In 2010, the HHI value was 0.234, indicating a relatively low concentration (moderate diversification) in the export market of these products. However, the concentration level gradually increased in the subsequent years, reaching its peak in 2015 with an HHI value of 0.405. This suggests that the export market for Ethiopian fruits and vegetables became more concentrated during that period. Interestingly, the concentration level started to decline from 2016 onwards until 2018, when the HHI value dropped to 0.29, suggesting relatively significant diversification in the export market for Ethiopian fruits and vegetables. However, this trend did not persist, as the concentration level increased in the following years. These indicate that the Ethiopian food and beverage product export sector experienced a period of diversification in the destination of fruits and vegetables in the mid-2010s but faced some challenges in maintaining this trend. Although there was a slight fluctuation during these years, the overall trend suggests a relatively stable but high level of market concentration.

Figure 67: Destination of Meat and Meat Products



Source: Author's calculation based on ECC (2010/11- 2021/22)

Somalia has the largest share of Ethiopian fruit and vegetable exports, accounting for 49.6% of the total. Djibouti is the second-largest destination, with a share of 25.8%. The high share of exports to Somalia and Djibouti suggests a strong demand for Ethiopian fruits and vegetables in the neighboring countries. This may indicate favorable trade relationships, geographical proximity, or cultural similarities that drive the demand.

With a 7.8% share, the presence of Ethiopian produce in the European market is evident in the Netherlands. The Netherlands is renowned for its well-established distribution networks and serves as a central point for European trade. Therefore, choosing the Netherlands as a destination can offer access to wider European markets. A considerable portion of this trade is facilitated by international fresh food companies that act as intermediaries between Ethiopia and various destination markets. Consequently, due to its status as a trade hub for fruit and vegetables, the Netherlands holds significant importance as a market. The United Kingdom, Spain, and Germany each account for around 2.5%, 1.5%, and 1.2% of the exports, respectively, which highlights the presence of Ethiopian fruits and vegetables in these European markets as well.

BOX 2: Ethiopian Fruit and Vegetables Potential Export Products for the European Market

Ethiopia has the potential to become a major exporter of fruit and vegetables to the European market. Buyers in Europe recognize the favourable climate in Ethiopia for producing high-quality fresh produce. However, the country still faces challenges in terms of price competitiveness compared to other countries like Kenya. The production costs in Ethiopia are higher, and during overlapping seasons with Egypt, Ethiopia prices itself out of the market. As a result, Ethiopia is often seen as a secondary or additional supplier rather than a primary source.

Foreign involvement has played a crucial role in the development of Ethiopia's fresh sector. Many current exports are facilitated by integrated sourcing companies or exporters with foreign management. While the Ethiopian government and NGOs are actively working to further develop the sector, past and recent violence has hindered new investment projects and partnerships.

The main drawback for Ethiopia's fresh sector is its dependence on air freight. Without improvements in land and sea logistics, most fresh fruits and vegetables cannot establish a sustainable market in Europe. Some products like beans, fresh herbs, and strawberries can be flown, but there is a growing preference for sustainable supply and local production, which gives an advantage to nearby markets like Morocco and Egypt. However, the climate in Ethiopia remains a limiting factor.

To succeed as a fresh exporter, Ethiopia needs to develop supply chains that comply with EU requirements, ensure sufficient volume and quality cold chains, improve inland logistics, and establish a regular sea-freight route via Djibouti. These improvements are necessary to guarantee both quality and supply security, enabling Ethiopia to participate in major supply programs with retailers. Currently, Ethiopia is primarily used as an additional supplier and relies on the spot market.

There are specific opportunities for Ethiopia as a supplier of organic produce. The country's good soil, small-scale production, and low pesticide use make it suitable for organic farming. Organic certification also allows for air freight, which is a premium option. Additionally, Ethiopia's numerous small producers provide opportunities for fair trade certification, although this market is niche and not suitable for all products due to low demand in Europe.

Based on feedback from European buyers and market information, the most promising product-market combinations for Ethiopia are beans and peas to the United Kingdom, Netherlands, and Scandinavia; sea-freighted avocados (including organic) to the Netherlands, France, and Germany; organic fresh herbs to the Netherlands, United Kingdom, and Germany; and high-quality strawberries and other soft fruits to the United Kingdom, the Netherlands, and Belgium.

In the short term, there are opportunities for air-freighted products such as fresh beans, organic herbs, and high-quality strawberries. Avocados have potential in the near future if supply chain improvements and sea logistics are made more efficient. However, for retail supply programs, Ethiopia needs to ensure large and reliable supplies, which is currently a challenge.

Long-term opportunities exist for products that require more knowledge and training, as well as those that are not commonly associated with Ethiopia. Table grapes, for example, may take more time to establish in the market.

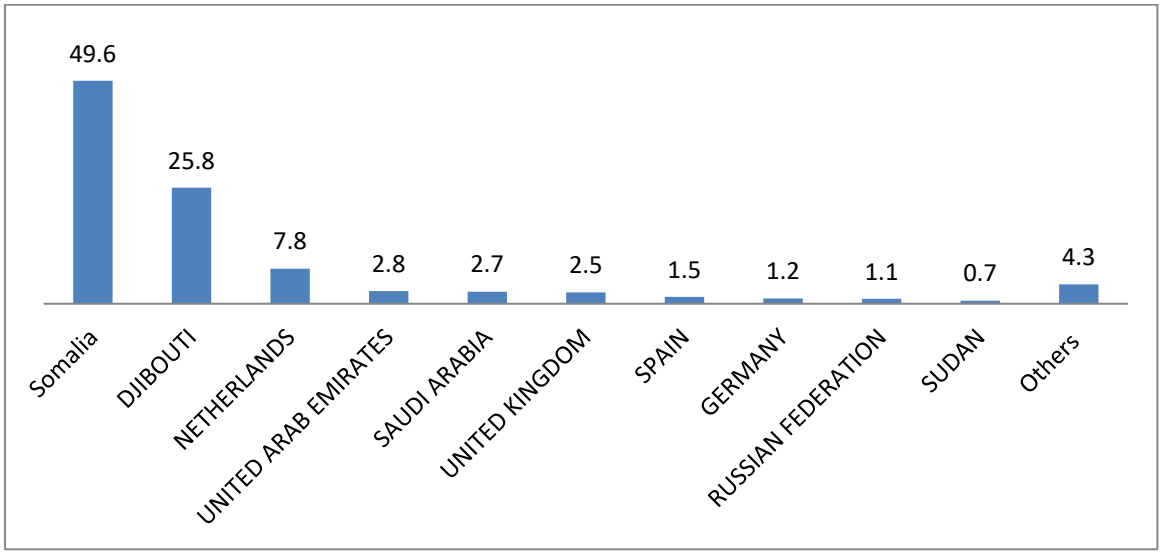
Overall, professionals in the fresh sector recognize Ethiopia's potential but emphasize that much work still needs to be done to overcome challenges and fully capitalize on the opportunities available.

Source: EU Market Research –Ethiopia Fresh Fruit and Vegetables, CBI, 2020

The United Arab Emirates (UAE) and Saudi Arabia both have relatively small shares of 2.8% and 2.7%, respectively. While these percentages may seem modest, they still represent valuable export destinations in the Middle East. Russia and Sudan have smaller shares of 1.1% and 0.7%,

respectively. This suggests some demand for Ethiopian produce in these countries, although it may be more limited compared to other destinations.

Figure 68: Major Destination of Fruit and Vegetables



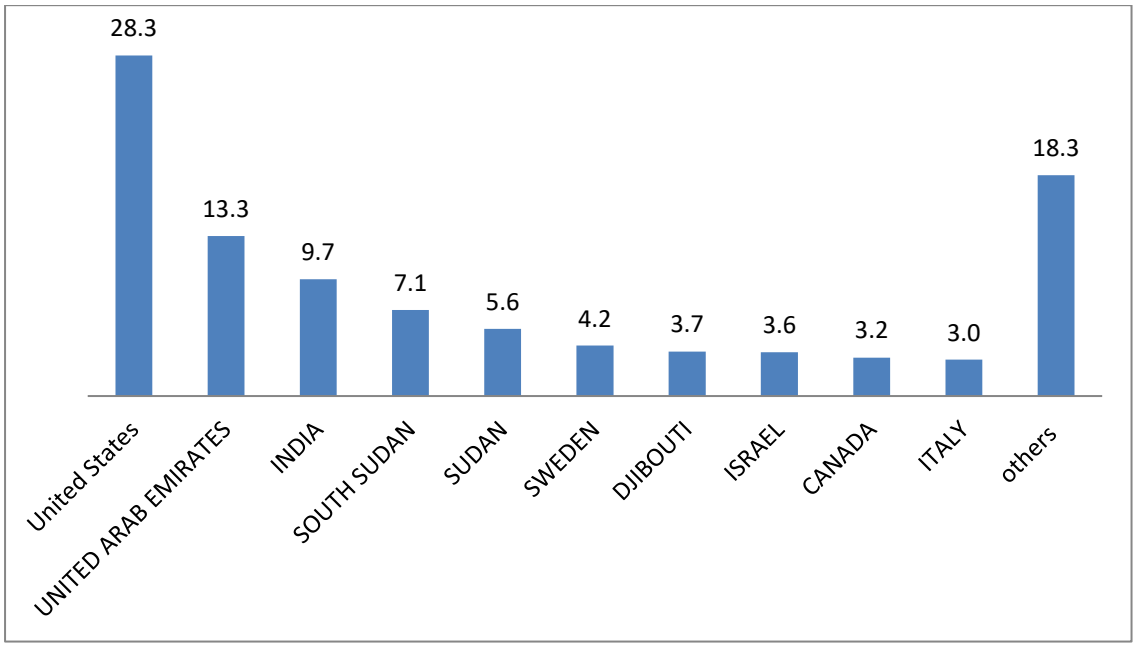
Source: Author's calculation based on ECC (2010/11- 2021/22)

The HHI values for Ethiopian food and beverage exports fluctuated over the years across destinations, ranging from 0.134 to 0.179 for most years, indicating a moderate level of diversification in terms of destination. However, the recent year's HHI value of 0.229 suggests a potential concentration of Ethiopian food and beverage product exports to specific destinations.

As shown in Figure 69, Ethiopia's largest destination for food and beverage exports is the United States (28.3%), followed by the United Arab Emirates (13.3%). Neighboring countries South Sudan (7.1%), Sudan (5.6%), and Djibouti (3.7%) have a combined share of 16.4%. India (9.7%) holds a considerable share of Ethiopia's food and beverage export market. Sweden (4.2%), Israel (3.6%), Canada (3.2%), and Italy (3.0%) hold relatively smaller shares but still contribute significantly to Ethiopia's food and beverage exports. It demonstrates the diversification of export destinations for Ethiopian products. The "others" category represents 18.3%, which shows the combined share of all other countries not specifically mentioned in the table. This suggests that there are additional international markets for Ethiopian food and beverages, contributing to a diverse export portfolio. However, it is important to note that the export of Ethiopian food and beverages is mainly reliant on the number of Ethiopians in the diaspora, as Ethiopia's primary food and beverage exports consist of staple foods such as Injera, Shiro, Aja, and kolo (commonly known as *Baltina*), as well as alcoholic beverages like beer, wine, and spirits. Additionally,

Ethiopia exports other processed food items categorized under HS Code 2106 (food preparations not elsewhere specified).

Figure 69: Major Destination of Food and beverages



Source: Author's calculation based on ECC (2010/11- 2021/22)

Looking at the table 7, we can see that the HHI values for the different African countries vary widely over time. For example, Rwanda has consistently high HHI values over the years, suggesting significant concentration in its export markets. In contrast, Egypt has a relatively low HHI value, indicating a more competitive export market. Comparing these countries to Ethiopia, we can see that Ethiopia's HHI values are generally lower than those of some of the other African countries listed in the table. This suggests that Ethiopia's export market is relatively more competitive than those of some of its neighbours. However, it is worth noting that Ethiopia's HHI values have been increasing over time, which could indicate a trend towards greater concentration in its export markets.

Table 7: HHI of some African countries

Countries	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Egypt	0.034	0.040	0.039	0.036	0.038	0.037	0.032	0.033	0.033	0.038	0.042
Ethiopia	0.062	0.066	0.063	0.054	0.045	0.043	0.034	0.031	0.031	0.039	0.065
Ghana	0.049	0.069	0.076	0.062	0.061	0.112	0.094	0.098	0.111	0.089	
Kenya	0.052			0.051		0.044	0.046	0.046	0.045	0.051	0.056
Malawi	0.043	0.040	0.038	0.041	0.040	0.052	0.049	0.045	0.049	0.048	0.043
Rwanda	0.083	0.146	0.106	0.134	0.110	0.086	0.188	0.277	0.396	0.364	
South Africa	0.051	0.071	0.107	0.119	0.117	0.084	0.071	0.067	0.068	0.068	0.064
Tanzania	0.074	0.094	0.120	0.091	0.095	0.093	0.081	0.094	0.090	0.067	0.080
Togo	0.063	0.052	0.096	0.107	0.067	0.072	0.073	0.087	0.114	0.080	0.075

Source: Author's calculation based on ECC (2010/11- 2021/22)and Trade Map

Overall, while the HHI values provide some insight into the level of market concentration in each country's export markets, they do not tell the whole story. Other factors, such as the diversity of export products and the competitiveness of each sector, also influence the overall health and performance of each country's export industry.

4.4. Competitiveness

4.4.1. Share of Ethiopian Exports to Different Market

Table 8 presents the trends of Ethiopia's share of exports to the world from 2010 to 2021. The country's main export items include oilseed, flowers, coffee, and tantalite ore, while other items such as textiles, meat, fruits, gold, and leather products have a comparatively smaller share.

Oilseed exports showed an increasing trend from 2.09% in 2010 to 2.57% in 2013 before declining continuously to 0.94% in 2021. This decline could be attributed to several factors, including fluctuations in international prices, challenges in accessing markets, and farmers shifting to more profitable crops.

Textile and garment exports remained consistently low throughout the period, accounting for only 0.02% of Ethiopia's share of exports to the world. This could be due to limited investment in the sector or lack of competitiveness.

Coffee exports fluctuated over the years, peaking at 7.11% in 2021, up from 5.21% in 2010. This increase can be attributed to favourable weather conditions, increased productivity, and government support.

Table 8: Share of Ethiopia to the world

Share of Ethiopia to the world	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Oilseed	2.09	2.21	1.90	2.57	2.16	2.36	1.72	1.86	1.72	1.62	1.38	0.94
Textile and Garment	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.03
Flower	2.42	2.32	1.69	2.26	2.43	2.92	2.75	2.78	2.95	4.94	5.47	4.95
Pulses	0.29	0.29	0.37	0.37	0.32	0.37	0.44	0.38	0.40	0.35	0.29	0.24
Live Animals	0.77	0.92	0.72	0.77	0.56	0.64	0.29	0.24	0.17	0.20	0.17	0.11
Meat and Meat Products	0.06	0.06	0.06	0.06	0.06	0.08	0.08	0.07	0.06	0.04	0.05	0.06
Coffee	5.21	3.27	3.42	4.39	3.98	3.88	4.83	4.32	4.44	5.04	5.26	7.11
Fruits and Vegetables	0.03	0.03	0.03	0.03	0.02	0.03	0.03	0.03	0.03	0.04	0.03	0.04
Food and beverages	0.01	0.01	0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.01	0.03	0.03
Gold	0.32	0.26	0.15	0.09	0.10	0.09	0.06	0.03	0.01	0.07	0.17	0.14
Tantalite Ore	12.27	3.87	1.70	1.38	3.89	3.46	3.23	5.27	3.43	3.93	3.57	5.04
Leather and Leather Products	0.13	0.11	0.12	0.12	0.12	0.11	0.12	0.08	0.11	0.05	0.03	0.03

Source: Trade map and WITS

Flower exports had a significant growth trend, starting from 2.42% in 2010 and reaching a peak of 5.47% in 2020 before slightly dropping to 4.95% in 2021. This increase can be attributed to favourable weather conditions, increased investments, and government support. Pulses exports peaked at 0.44% in 2016 before declining to 0.24% in 2021. This could be due to quality issues, poor infrastructure, and inadequate market access.

Live animal exports increased from 0.77% in 2010 to 0.92% in 2011 before fluctuating yearly and significantly dropping to 0.11% in 2021. This decline is due to the government's restrictions on live animal exports and the need to prioritize the domestic market. Meat and meat product exports remained constant, accounting for only a small percentage of Ethiopia's total exports. This could be due to limited production capacity, quality issues, and inadequate market access.

Fruits and vegetable exports remained low throughout the period, accounting for only around 0.03-0.04% of Ethiopia's share of exports to the world. This could be due to limited production capacity, quality issues, and inadequate market access. Food and beverage exports remained consistently low throughout the period, but there was a noticeable increase from 0.01% in 2018 to 0.03% in 2020. This increase could be due to increased investment and government support.

Gold exports fluctuated considerably throughout the period, with a significant increase observed in 2020 and a slight decrease in 2021. The fluctuations in global gold prices, exploration activities, and government policies could have contributed to this trend. Tantalite ore exports had a high share of exports from 2010 to 2012, after which its share dropped significantly for some years.

However, it started to increase again from 2018, peaking at 5.04% in 2021. This trend may be due to international demand, favourable extraction conditions, and the government's incentives.

Leather and leather product exports remained low throughout the period, accounting for only a small percentage of Ethiopia's share of exports to the world. This could be due to limited production capacity, poor quality, and inadequate market access.

In summary, Ethiopia's export trends have varied by item, with some items showing consistent growth or decline over time, while others fluctuate yearly. The country's economy remains dependent on a few major export items such as coffee and flowers, while other items show potential for growth if there is sufficient investment and support.

The trends in Ethiopia's share of exports to the world imply that the country's economy is highly dependent on a few major export items, mainly coffee and flowers. The growth in flower exports can be attributed to favourable weather conditions, increased investments, and government support, while coffee exports benefited from increased productivity, favourable weather conditions, and government support. However, for other items like oilseeds, pulses, live animals, and fruits and vegetables, there are challenges such as limited production capacity, quality issues, and inadequate market access. These items have shown a declining trend or remained consistently low throughout the period, which implies that Ethiopia needs to address these challenges and invest more in diversifying its export basket to reduce its dependence on a few major items.

The table 9 shows the trends in Ethiopia's share of exports to African countries for various items from 2010 to 2021. Coffee had a high share of 61.7% in 2010 and remained a major export commodity for Ethiopia throughout the period, with some fluctuations. This indicates the continued importance of coffee as a key foreign exchange earner for Ethiopia.

Oilseeds had a high share of 40.5% in 2011, but it decreased rapidly in subsequent years to only 16.6% in 2021. This may be due to increased competition from other countries and a shift in focus towards other commodities. Textile and garment exports remained relatively low throughout the period, with a slight increase from 0.6% in 2010 to 1.7% in 2021. However, this is still a small proportion of Ethiopia's overall exports. Flower exports saw a significant increase in 2011, with a share of 127.2%, but then fluctuated in subsequent years, with a gradual decline since 2019. The sector may have been affected by the COVID-19 pandemic, which caused disruptions to global supply chains and reduced demand for non-essential goods.

Table 9: Share of Ethiopia to the Africa Export

share of Ethiopia to the Africa	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Oilseed	25.9	40.5	26.3	26.9	20.0	20.7	21.0	26.0	20.2	21.3	21.5	16.6
Textile and Garment	0.6	0.7	1.0	1.1	1.0	0.8	0.9	1.0	1.4	1.7	1.7	1.7
Flower	31.8	127.2	75.6	26.2	131.4	37.5	35.7	35.1	36.2	49.2	55.3	48.9
Pulses	27.4	34.5	35.6	37.0	23.4	24.8	30.7	31.1	34.5	27.1	22.9	15.6
Live Animals	36.3	46.7	32.1	42.3	19.2	18.2	5.7	4.3	3.3	8.7	11.9	8.3
Meat and Meat Products	7.8	13.9	12.9	13.0	13.2	12.1	12.3	13.8	12.3	11.4	14.5	20.5
Coffee	61.7	54.7	47.6	45.4	51.5	41.7	53.0	43.2	56.2	45.2	47.9	83.2
Fruits and Vegetables	0.5	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.5	0.7
Food and beverages	0.4	0.5	0.6	0.5	0.7	0.9	0.9	0.9	0.8	0.8	2.2	2.4
Gold	4.8	2.5	2.2	1.1	1.6	1.8	0.8	0.4	0.1	0.7	2.7	2.9
Tantalite Ore	18.1	5.0	2.6	2.3	8.0	5.6	5.5	7.8	5.0	7.0	7.2	13.8
Leather and Leather Products	2.6	5.8	5.5	5.4	6.5	8.3	9.7	7.5	10.4	6.3	4.5	4.4

Source: Trade map and WITS

Pulses had a consistent share of around 30% in recent years, with some fluctuations. This indicates the stability of the sector and its importance as an export commodity for Ethiopia.

Live animals had a high share in the early years, but declined gradually over time, possibly due to stricter regulations on international trade of live animals. Meat and meat products had a relatively stable share over the years, with a notable increase from 11.4% in 2018 to 20.5% in 2021. This suggests that the sector has been growing steadily over the years and is becoming more competitive in the African market.

Fruits and vegetables had a consistently low share of around 0.5%, indicating limited export potential for these products in the African market. Food and beverages had a low share in the early years, but saw a notable increase from 0.8% in 2018 to 2.4% in 2021. This suggests that the sector is growing in importance as an export commodity for Ethiopia.

Leather and leather products had a high share in the later years; however, there is reduction in recent years. This indicates that the sector is becoming less competitive in the African market. Gold and tantalite ore exports remained relatively stable over the years, with some fluctuations. However, their share is relatively small compared to other commodities, indicating limited export potential.

The analysis of the trends in Ethiopia's share of exports to African countries suggests that there are a few key commodities that dominate its export portfolio. This concentration of exports in a few sectors can be risky, as it makes the country more vulnerable to external shocks, such as

fluctuations in global commodity prices or disruptions to supply chains. For example, the decline in the share of oilseeds and flowers exports in recent years may have a negative impact on Ethiopia's foreign exchange earnings from these sectors. To mitigate these risks and capitalize on new opportunities, Ethiopia needs to diversify its export base by exploring new markets and developing value-added products. This could involve investing in research and development to improve productivity and quality of existing products, as well as identifying new export commodities that have high potential in the African market. By diversifying its export portfolio, Ethiopia can reduce its dependence on a few key commodities and achieve more sustainable economic growth over the long term.

Table 10 shows the trends in Ethiopia's share of exports to COMESA (Common Market for Eastern and Southern Africa) countries for various items from 2010 to 2021. Coffee had a high share of 88.8% in 2021 and remained a major export commodity for Ethiopia throughout the period with some fluctuations. This reflects the continued importance of coffee as a key foreign exchange earner for Ethiopia.

Oilseeds had a high share of 67.7% in 2011, but it decreased rapidly in subsequent years to only 17.2% in 2021. This may be due to increased competition from other sources of edible oil or shifts in consumption patterns in the COMESA region. Textile and garment exports remained relatively low throughout the period, with a gradual increase from 1.1% in 2010 to 3.2% in 2021. The sector has seen some growth, but still constitutes a small proportion of Ethiopia's overall exports.

Flower exports saw fluctuations over the years, with a gradual increase since 2019 and a share of 55.0% in 2021. This indicates that the flower sector has been recovering from the impact of the COVID-19 pandemic, which caused disruptions to global supply chains and reduced demand for non-essential goods.

Pulses had a consistent share of around 40% except recent decline in to 25% in 2021/22, indicating the stability and importance of this sector as an export commodity for Ethiopia. Live animals had a high share in the early years, but declined gradually over time, possibly due to stricter regulations on international trade of live animals. Meat and meat products had a relatively stable share over the years, with notable fluctuations. However, it had a significant decline in 2021, which could be attributed to the on-going COVID-19 pandemic and its impact on the food industry. Fruits and vegetables had a consistent share of around 1-2% over the years, indicating limited export potential for these products in the COMESA market. Food and beverages had a

relatively low share in the early years but saw a notable increase from 4.6% in 2019 to 10.9% in 2021. This suggests that the sector is growing in importance as an export commodity for Ethiopia.

Table 10: Share of Ethiopia to the COMESA

Items	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Oilseed	46.9	67.7	52.3	61.2	36.1	31.9	31.9	40.0	31.7	21.2	19.4	17.2
Textile and Garment	1.1	1.3	1.7	1.9	1.6	1.5	1.6	2.0	2.7	3.1	3.2	3.2
Flower	30.6	31.1	27.4	28.5	26.2	47.5	39.7	40.0	42.4	62.3	56.2	55.0
Pulses	42.7	47.8	54.2	46.8	28.2	38.7	43.3	41.4	42.3	39.5	40.1	25.6
Live Animals	26.7	26.4	17.9	22.6	13.6	11.1	5.6	9.2	4.4	5.6	5.9	2.3
Meat and Meat Products	55.9	55.1	88.8	58.6	62.5	33.7	29.5	43.1	36.5	31.7	43.7	35.7
Coffee	64.3	50.3	46.0	54.1	49.3	53.1	66.7	49.6	79.2	73.5	79.4	88.8
Fruits and Vegetables	1.2	1.5	1.8	1.5	1.4	1.7	1.9	1.9	1.8	2.1	1.6	2.1
Food and beverages	2.5	3.2	4.1	3.8	5.6	6.5	5.1	6.2	5.4	4.6	10.3	10.9
Gold	15.8	17.2	11.8	15.3	11.0	16.3	2.7	1.3	0.5	2.6	6.7	7.7
Tantalite Ore	72.5	23.3	5.5	2.6	6.7	6.1	6.3	8.4	6.7	7.4	7.9	13.6
Leather and Leather Products	19.0	16.1	19.8	16.5	16.6	18.4	19.5	17.8	26.9	16.5	12.5	12.4

Source: Trade map and WITS

Leather and leather products had a stable share over the years, with a gradual decline since 2018. Nonetheless, it remains a significant contributor to Ethiopia's export earnings. Gold and tantalite ore exports remained relatively stable over the years, with some fluctuations. However, their share is relatively small compared to other commodities, indicating limited export potential.

In conclusion, like overall African market, Ethiopia's export portfolio to the COMESA countries is dominated by a few key commodities such as coffee, oilseeds, pulse and live animals. While some sectors have seen notable growth over the years, others have remained relatively stagnant. To diversify its export base and reduce reliance on a few key commodities, Ethiopia may need to explore opportunities in new markets or value-added products. The government could invest in research and development, improve infrastructure, negotiate favourable trade agreements and streamline regulations related to export procedures to support diversification efforts.

4.4.2. Ethiopian Relative Trade Balance (RTB)

Table 11 shows the Relative Trade Balance (RTB) for major Ethiopian exportable items to the world from 2010/11 to 2021/22. RTB is a measure that compares the export prices of goods to their import prices, and it provides an indication of a country's trade competitiveness in international markets.

Coffee has consistently shown a high RTB to the world, with values ranging from 99.5% to 100%, indicating that Ethiopia is competitive in the global coffee market. The same is true for gold and tantalite, which maintained a 100% RTB during the period under consideration. While Ethiopian coffee is a valuable and competitive commodity, there are several challenges facing the production and export of coffee in Ethiopia. Climate change, pests and diseases, limited access to finance and technology, lack of quality control, and price volatility are key challenges facing coffee production in Ethiopia. Climate change impacts include crop damage, lower yields, and unpredictable weather patterns. Pests and diseases like coffee berry disease and coffee rust reduce crop quality and productivity. Limited access to financing and technology hampers farmers' ability to improve productivity. Inconsistent quality due to poor post-harvest handling affects Ethiopia's reputation as a supplier of premium coffee. Price volatility creates financial uncertainty for farmers. Addressing these issues requires research, improving post-harvest practices, increasing access to finance and technology, and implementing policies for price stability and climate risk mitigation.

Table 11: RTB of major Ethiopian exportable items to the World

RTB to World	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Coffee	99.8	99.8	100.0	100.0	99.7	100.0	100.0	99.5	100.0	100.0	100.0	99.9
Flower	99.9	100.0	100.0	100.0	100.0	99.7	100.0	100.0	100.0	100.0	100.0	100.0
Food and Beverages	-42.4	-14.9	-11.5	-35.8	-29.7	-21.5	-26.4	-28.0	-39.3	-32.9	9.0	14.4
Fruits and Vegetables	25.1	49.1	45.7	23.8	19.7	23.4	27.0	25.2	15.3	37.9	25.4	35.5
Gold	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Leather and Leather Products	84.0	85.9	82.2	77.8	66.7	60.2	58.0	27.9	51.9	18.0	8.5	-0.3
Live Animals	99.2	98.2	94.5	92.3	93.2	92.2	80.6	70.9	62.9	72.8	68.9	51.3
Meat and Meat Products	99.4	99.3	99.0	99.0	99.0	99.0	98.7	98.6	98.7	97.8	98.5	98.3
Oil seed	99.9	98.3	99.5	99.7	99.5	99.8	98.3	99.4	99.6	99.0	98.7	96.7
Pulses	61.6	70.5	71.5	87.3	80.9	66.3	57.6	57.8	76.5	54.4	36.3	18.7
Textile and Leather Products	-59.0	-37.6	-46.8	-48.0	-57.9	-69.0	-64.9	-62.4	-42.9	-30.0	-37.0	-21.3
Tantalite	99.5	98.1	98.2	100.0	100.0	100.0	100.0	99.9	100.0	100.0	100.0	99.6
All Commodities	-54.1	-47.1	-58.8	-55.5	-68.7	-71.8	-72.1	-70.2	-70.2	-68.4	-60.4	-59.1

Source: Author’s calculation based on ECC (2010/11- 2021/22) and Trade map

Flowers also had a consistently high RTB, averaging around 99.9% over the years. This indicates that Ethiopia's flower industry is highly competitive and able to maintain its price advantage in the international market. The reasons for the competitiveness of flower sector are that the country has favourable climate conditions for flower production, with abundant sunshine and fertile soil.

Additionally, Ethiopia has established itself as a supplier of high-quality roses and other flowers, which can command premium prices in international markets.

Fruits and vegetables have shown a fluctuating trend in RTB, with an average of 28.3% over the years. However, the RTB values have been mostly positive, indicating that Ethiopia is competitive in exporting fruits and vegetables to the world market. The competitiveness of Ethiopian fruits and vegetables in international markets has been growing steadily over the past few years. Ethiopia is known for producing a variety of high-quality fruits and vegetables such as avocados, mangoes, beans, and tomatoes, which are exported to Europe, Asia, and the Middle East. In the European Union (EU), there is a rising demand for a diverse array of vegetable products. Ethiopia possesses great potential in supplying these products to the EU markets. However, it is crucial to carefully plan and time the production and marketing of these vegetables to align with specific windows of opportunity, thereby maximizing economic returns. The range of Ethiopian vegetable products with this potential includes avocados, strawberries, grapes, mangoes, sugar snaps, asparagus, baby corn, okra, and other Asian vegetables (https://edepot.wur.nl/3592).

One factor contributing to the competitiveness of Ethiopian fruits and vegetables is the country's favourable Agro-climatic conditions, which make it ideal for the production of a wide range of crops. Additionally, Ethiopia has made significant investments in developing the horticultural sector, including improving infrastructure, providing technical assistance to farmers, and promoting exports. Another factor that enhances the competitiveness of Ethiopian fruits and vegetables is their organic and sustainable production methods. Many Ethiopian small-scale farmers use traditional farming practices that do not rely on synthetic pesticides or fertilizers, making their products highly sought after in international markets.

Ethiopian fruits and vegetables are also competitive in terms of pricing. The cost of production in Ethiopia is relatively low such as land lease costs are low and labour is relatively inexpensive and productive, which allows exporters to offer competitive prices without compromising quality. Furthermore, the Ethiopian government's initiatives, such as tax exemptions for investors, export promotion agencies, and financial incentives, have contributed to making the fruit and vegetable industry more competitive. In conclusion, the competitiveness of Ethiopian fruit and vegetable exports is supported by several factors, including favourable Agro-climatic conditions, organic and sustainable production methods, competitive pricing, and government support measures. However, there are still challenges, such as limited access to finance and technology for small-

scale farmers and limited cold chain logistics infrastructure, which need to be addressed to sustain and enhance the competitiveness of the industry in the long-term.

Meat and meat products have also shown stable RTB values, with figures ranging from 97.8% to 99.4%. This suggests that Ethiopia has a competitive advantage in these products in the international market. Meat and meat production export industry remains competitive due to its abundant livestock resources, competitive pricing, strategic location, investment in infrastructure, compliance with international standards, growing demand, and market access opportunities. However, there is still a need for continued investment and improvement in areas such as logistics, regulatory compliance, and value addition to remain competitive and sustainable in the long term.

The RTB values for live animals in Ethiopia fluctuated over the years. From 2010/11 to 2013/14, the RTB values remained relatively high but experienced a slight decline. However, from 2014/15 to 2016/17, there was a noticeable decrease in RTB, indicating a decline in competitiveness in the global market for live animals. In the subsequent years, from 2017/18 to 2020/21, the RTB values continued to fluctuate but stayed below the levels observed earlier. This suggests that Ethiopia faced challenges in maintaining its competitiveness in exporting live animals during this period. The most significant decline in RTB occurred from 2016/17 to 2018/19, where the value dropped from 80.6 to 62.9. However, there was a slight recovery in 2019/20 with an RTB of 72.8. The latest available data for 2021/22 shows an RTB of 51.3, indicating a further decrease in the relative competitiveness of Ethiopian live animals in the global market. Overall, the trend suggests that Ethiopia faced challenges in maintaining a consistently competitive position in exporting live animals over the years covered by the data. The possible reasons behind these fluctuations are disease outbreaks, quality control issues, illegal trafficking of animals to neighbouring countries, logistics difficulties, regulatory compliance, and the impact of climate change.

The Ethiopian live animal export industry remains competitive globally due to factors such as abundant livestock resources, a strategic geographical advantage, competitive pricing, investment in infrastructure, compliance with international standards, growing demand for high-quality livestock products, and market access through trade agreements, quality assurance programs, government support, and cultural expertise in animal husbandry. Despite challenges, Ethiopia's industry has the potential to expand its presence in the global market by leveraging these advantages and continuing to improve efficiency and adherence to international standards.

On the other hand, food and beverages have shown negative RTB values, indicating that Ethiopia imports more than it exports for this category. However, the latest RTB values for 2020/21 and 2021/22 have improved significantly, showing a positive RTB of 9% and 14.4%, respectively. This suggests that Ethiopia has made progress in improving its trade competitiveness in the food and beverage industry.

Leather and leather products have fluctuated over the years, with some years showing a positive RTB, while others are negative. The global leather industry is highly competitive and Ethiopian leather and leather products face tough competition from several key players in the global market. China, as the world's largest producer and exporter of leather products, offers a combination of quality and affordability that makes its products highly competitive. India, with its skilled labour force and well-developed tanning facilities, produces high-quality leather goods with unique designs. Italy, known for its luxury leather goods and craftsmanship, maintains a strong presence in the market. Brazil's leather products are recognized for their durability, softness, and distinct textures. Bangladesh has also emerged as a significant competitor, bolstered by investments in technology, infrastructure, and workforce development. The challenges that Ethiopia faces in this sector are out-dated technology and equipment limit the industry's ability to produce high-quality goods at competitive prices. Access to finance is inadequate for many small- and medium-sized businesses due to high collateral requirements and limited credit availability. Poor infrastructure, including transportation networks, makes it costly and difficult to transport materials and finished products. Environmental concerns arise from unsustainable practices, such as water pollution by some tanneries. Limited access to international markets and the absence of trade agreements hinder competition. Additionally, supply chain challenges in getting of quality raw hides and skin.

To become competitive in the global market, Ethiopian leather and leather product manufacturers need to focus on improving the quality of their products, adopting new technologies, enhancing design capabilities, and identifying new markets for exports and avoiding internal barriers such as high export tax on raw hide is important.

Ethiopia has encountered persistent challenges in the textile and leather industries, as evidenced by consistently negative RTB values over the years. In the past decade there is a growing of Ethiopian textile and garment export due to Ethiopian access to AGOA and EBA and the establishment of industrial parks dedicated to the textile and garment industry, such as the Hawassa and Bole Lemi Industrial Park, has created an enabling environment for businesses with modern infrastructure, services, and utilities. While there has been growth in textile and garment

exports, the domestic demand substitution efforts have been inadequate due to high importation of cheap cloths and second-hand clothes.

Pulses have also shown a fluctuating trend in RTB, with some years showing positive values and others negative. However, the latest RTB values for 2020/21 and 2021/22 are significantly low at 36.3% and 18.7%, respectively, indicating that Ethiopia has lost its competitive edge in exporting pulses to the world market.

The above data implies that Ethiopia's trade competitiveness varies by sector and over time. Some sectors, such as coffee, gold, flowers, and meat products have maintained a competitive edge in the global market, with consistently high RTB values. Other sectors, such as food and beverages, leather and textile products, and pulses, have fluctuated over the years, indicating that Ethiopia faces challenges and needs to improve its competitiveness in these areas. The negative RTB values for all other commodities suggest that Ethiopia is importing more than it is exporting, which is not sustainable in the long run. However, the recent positive RTB values for food and beverages indicate that Ethiopia is making progress in addressing this issue in some sectors.

Overall, the data suggests that Ethiopia needs to focus on improving its trade competitiveness in various sectors to achieve sustainable economic growth. This can be achieved through measures such as improving productivity, quality control, and value addition in exportable goods, reducing production costs, and enhancing market access and promotion efforts. However, there is a need to exercise caution when interpreting the above RTB data. The RTB values are based on the prices of exports and imports, which can be influenced by various factors such as global demand, supply chain disruptions, and exchange rate fluctuations. Therefore, changes in RTB values may not always reflect changes in competitiveness but could also be due to external market conditions. The data does not account for non-price factors that can influence competitiveness, such as product quality, innovation, and branding. Therefore, high RTB values do not necessarily imply that Ethiopia has a competitive advantage in all aspects of producing and exporting those goods. Interpreting the RTB values in isolation can be misleading without considering the broader context of Ethiopia's economy and trade relationships.

In conclusion, while the RTB data provides valuable insights into Ethiopia's trade competitiveness in different sectors, it is essential to exercise caution when interpreting the results. Combining this data with other economic indicators and broader contextual information can provide a more complete picture of Ethiopia's trade competitiveness and inform policy decisions accordingly.

The RTB values for major Ethiopian exportable items to Africa show mixed results in terms of achieving a favourable trade balance. The table shows that Live Animals have consistently high RTB values, indicating strong exports in comparison to imports. However, there was a significant drop in 2016/17, and the RTB remained at a relatively moderate level between 70-99% in the following years.

Table 12: RTB of major Ethiopian exportable items to the Africa

RTB to Africa	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Live Animals	99.99	99.37	99.25	99.55	99.23	99.43	96.88	90.50	70.18	69.58	77.54	28.39
Meat and Meat Products	96.36	98.93	91.22	2.73	65.72	69.13	26.21	-32.33	52.27	-51.36	-97.55	-77.02
Leather and Leather Products	90.56	57.27	94.70	91.73	43.43	-8.39	-25.21	-98.17	-62.80	-98.44	-90.50	-78.14
oil seed	99.92	99.96	99.72	100.00	96.71	98.70	89.72	85.91	97.81	98.32	100.0	96.41
pulses	99.55	98.93	88.77	100.00	99.74	99.95	99.98	99.92	99.97	97.06	22.25	50.44
Coffee	98.14	98.82	99.63	100.00	98.37	100.00	100.00	100.00	100.00	100.00	100.0	100.00
Textile and Garment	51.56	72.31	-11.34	-46.22	-39.92	39.68	-24.91	-54.81	-43.32	10.41	-7.74	-2.29
Food and beverages	51.91	67.63	61.27	45.38	41.68	45.36	17.38	-21.51	-35.75	28.49	33.98	38.98
flower	99.93	99.97	99.98	99.97	99.98	99.69	99.97	99.98	99.99	100.00	99.99	100.00
All Commodities	4.79	16.47	0.11	27.16	2.87	-10.13	-5.71	-22.53	-26.60	-29.25	-23.70	-33.25

Source: Authors calculation based on ECC and Trade map and WITS

Coffee had consistently high RTB values over the years, indicating a strong export market. The RTB remained at 100% in some years, suggesting an entirely favourable trade balance with African partners. Textile and Garment RTB values have had fluctuating trends over the period. There were negative RTB values in 2012/13 and 2013/14, which improved significantly in the following years. The RTB value was positive but modest in 2020/21. This shows the growing of textile and garment export to African countries and reducing of imports.

Meat and Meat Products showed fluctuating RTB values over the years, with a significant drop in 2013/14 but it was positive. However, starting from 2017/18 to 2021/22 it becomes negative and the imbalance also increases. This indicates increased imports or reduced exports, while the RTB, indicating an unfavourable trade balance.

Leather and Leather Products showed unstable trends in RTB values, with several negative years and steep declines in 2017/18 and 2019/20. A highly negative RTB value in 2021/22 suggests that Ethiopia imported more leather products than it exported.

Oilseeds had consistently high RTB values over the period, indicating strong exports in comparison to imports. The RTB value reached 100% in some years, suggesting an entirely favourable trade balance with African partners. Pulses also had generally high RTB values throughout the years, but there were significant drops in 2018/19 and 2020/21. The negative RTB in 2020/21 indicates an unfavourable trade balance.

Food and Beverages showed decreasing RTB values over the years, indicating reduced exports or increased imports. However, there was a significant improvement in 2021/22, suggesting improved trade balance. Flowers had consistently high RTB values throughout the years, indicating strong export markets. The RTB remained at nearly 100% in some years, suggesting a highly favourable trade balance with African partners.

In the whole, the RTB values for all commodities averaged around 0.30%, suggesting that Ethiopia's exports to Africa were not sufficient to cover the costs of its imports over the period. However, there are indications of progress being made in recent years towards achieving a more favourable trade balance, with slightly improved RTB values in 2020/21 and 2021/22. Based on the above statement, it can be inferred that Ethiopia's trade relationship with other African countries regarding its major exportable items is a mixed bag. Some products such as Live Animals, Oil Seeds, Coffee, and Flowers have consistently high RTB values, indicating strong export markets and favourable trade balances with African partners. However, other products such as Meat and Meat Products, Leather and Leather Products, and Food and Beverages have fluctuating or negative RTB values, suggesting reduced exports or increased imports, leading to an unfavourable trade balance.

In the following table, we can see the RTB of major Ethiopian exportable items to the COMESA over twelve years from 2010/11 to 2021/22.

Table 13: RTB of major Ethiopian exportable items to the COMESA

RTB to COMESA	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Live Animals	99.99	99.87	99.25	99.63	99.28	99.43	96.88	91.25	70.18	69.58	77.48	27.77
Meat and Meat Products	93.75	100.0	91.13	24.62	81.82	77.57	45.17	-51.94	39.64	-42.89	-95.27	-60.61
Leather and Leather Products	89.48	92.39	93.88	94.39	47.02	4.53	-6.11	-96.23	-28.17	-96.76	-94.18	-77.75

Oil seed	99.91	99.96	99.7	100.0	96.21	98.24	81.29	85.07	96.59	98.13	100.0	100.0
pulses	99.52	98.76	85.85	100.00	99.70	99.95	99.97	99.92	99.97	96.69	-6.35	37.46
Coffee	97.78	98.73	99.56	100.00	98.18	100.0	100.0	100.0	100.0	100.0	100.0	98.25
Textile and Garment	66.95	85.13	-4.06	-41.01	-41.11	52.32	39.84	27.39	32.68	17.87	28.21	24.94
Food and Beverages	97.08	95.88	87.08	85.37	80.39	68.65	26.64	-39.37	-33.20	-2.66	15.75	-2.72
flower	99.93	99.97	99.98	99.97	99.98	99.69	99.97	99.98	99.99	100.0	99.99	100.0
All Commodities	24.03	32.99	38.03	49.26	26.40	30.41	29.18	25.94	7.72	8.56	13.55	-2.24

Source: Authors calculation based on ECC and Trade map and WITS

Live Animals have had consistently high RTB values, indicating strong exports in comparison to imports. However, there was a significant drop in 2016/17. The RTB remained at a relatively moderate level between 70-99% in the following years. Interestingly, there was a sharp increase in 2020/21, indicating a highly favourable trade balance with the COMESA partners.

Meat and Meat Products saw fluctuating RTB values over the years. There was a significant drop in 2013/14 and 2019/20, which suggest increased imports or reduced exports. The RTB value remained negative in 2020/21, indicating an unfavourable trade balance.

Leather and Leather Products showed unstable trends in RTB values, with several negative years and steep declines in 2017/18 and 2019/20. A highly negative RTB value in 2021/22 suggests that Ethiopia imported more leather products than it exported.

Oilseeds had consistently high RTB values over the period, indicating strong exports in comparison to imports. The RTB value reached 100% in some years, suggesting an entirely favourable trade balance with COMESA partners. Pulses also had generally high RTB values throughout the years, but there were significant drops in 2018/19 and 2020/21. The negative RTB in 2020/21 indicates an unfavourable trade balance. Coffee had consistently high RTB values over the years, indicating a strong export market. The RTB remained at 100% in some years, suggesting an entirely favourable trade balance with COMESA partners.

Textile and Garment RTB values have had fluctuating trends over the period. There were negative RTB values in 2012/13 and 2013/14, which improved significantly in the following years. The RTB value was positive but modest in 2020/21. Food and Beverages showed decreasing RTB values over the years, indicating reduced exports or increased imports. A highly negative RTB in 2021/22 suggests that Ethiopia imported much more food and beverages than it exported.

Flowers had consistently high RTB values throughout the years, indicating strong export markets. The RTB remained at nearly 100% in some years, suggesting a highly favourable trade balance with COMESA partners.

Generally speaking, the RTB values for all commodities have exhibited unstable trends, with a recent decline leading to a value of -2.24 %. However, there is still room for improvement in achieving a more favourable trade balance for Ethiopian exports to the COMESA region. This could be achieved through initiatives such as increasing productivity, diversifying export markets, improving supply chain infrastructure, and investing in value-added processing of raw materials to increase their competitiveness in the global market. The Ethiopian RTB values to the COMESA region based on the above findings indicate that there have been mixed results in terms of achieving a favourable trade balance. While some commodities such as Live Animals, Oilseeds, and Coffee have consistently maintained high RTB values, indicating strong export markets and favourable trade balances, others such as Meat and Meat Products, Leather and Leather Products, and Food and Beverages have shown negative RTB values, indicating an unfavourable trade balance.

CHAPTER FIVE: OPPORTUNITIES AND CHALLENGES OF EXPORT ENDEAVORS

This chapter, based on quantitative and qualitative data, presents and analyses the opportunities the export sector can exploit and the major challenges that are hindering the sector's competitiveness and diversification. To this effect, the chapter approaches the analysis from two perspectives. First, each sector under study is dealt with. There are sector specific opportunities and challenges that need separate analysis and interpretation. Then major macro level opportunities and challenges that are common for all sectors under study are analysed. Indeed, almost all the sectors have a lot of opportunities and challenges in common. What is more, analyses for specific sectors are done without categorizing opportunities and challenges; rather,

issue based analysis is preferred to a separate analysis of opportunities and challenges. However, cross cutting opportunities and challenges are described separately in two categories. These opportunities and challenges are conceptualized in terms of export competitiveness and diversification.

5.1. Sectoral Level Analysis

The sectoral level study is organized into seven sub sections. The sectors studied are predominantly agricultural and primary export products. In the extractive industry, gold is analysed. While textile and leather products are chosen from the manufacturing industry. For ease and convenience, oilseeds and pulses are threated together. Then, coffee, khat, and horticulture are discussed. Finally, gold and textile are dealt in a respective order.

Coffee

Ethiopia is known as the "birthplace of coffee" and is believed to be the center of origin and diversity for Arabica coffee. Ethiopian coffee is highly valued for its exceptional quality and unique flavor profiles resulting from specific growing regions and processing methods. The different agro-ecology and climatic conditions offer the country diverse Arabica coffees. In fact, very few places in the world can match the ideal growing conditions that exist in Ethiopia: a combination of the right temperatures and rainfall patterns, as well as the very specific altitudes necessary for Arabica coffee to thrive between 1,200 and 2,000 meters above sea level (Mechal, 2013). What is more, Ethiopia has high potential and prospects for sustained expansion for producing quality coffee types of world standard due to the availability of adequate and suitable agricultural land and labour with favourable temperatures and water supplies.

In the coffee trade, above all, the supply of best-quality coffee seeds in favour of consumers' preferences and demand is the most vital aspect. In this regard, Ethiopia is gifted in the sense that the country is endowed with a diversity of quality coffee types, such as Harrarghe, Yirgacheffe, Gmbi, Limu, and others, which fetch premium prices in the world market. This offers the country a well-established brand and a positive image in the world coffee trade. While Ethiopia does not currently produce the volume necessary to compete with the powerhouses of Brazil and Colombia (which together account for nearly 40 percent of global Arabica coffee production), Ethiopia has a distinct advantage when it comes to producing the finest coffee for the specialty market. Hence, Ethiopia has a competitive advantage in quality in the international coffee trade.

Another significant factor that can make Ethiopian coffee competent in the international market is the changing preferences of international consumers and global market trends. Specialty coffee, which refers to coffee grown in ideal climates and processed with care to reveal distinct and unique flavours, has been gaining popularity across the globe. Ethiopian coffee, known for its distinct flavour profiles such as fruity, floral, and earthy notes, is well-positioned to cater to this niche market.

In the same argument, the changing preferences of international consumers make Ethiopian coffee preferable. With a growing awareness of ethical and environmentally sustainable practices in coffee production, consumers are increasingly looking for brands that prioritize social and environmental responsibilities. By adhering to strict quality and certification standards, Ethiopian coffee can continue to be an attractive choice for conscious consumers. The quality and standards of Ethiopian coffee are vital to maintaining its position as a premium product in the global market. By implementing strict quality control measures, adhering to certification and compliance standards, and adapting to evolving consumer preferences and market trends, Ethiopian coffee can continue to thrive and grow as a valued and sought-after commodity.

In terms of market share, Ethiopia is the fifth-biggest coffee exporter in the world, selling to markets on all continents. In the last decade, the most noticeable change in the direction of Ethiopia's coffee exports has been the declining importance of the USA and the rising importance of Japan, Germany, and Saudi Arabia. The country lost its shares in the USA's, Finland's, and Italian coffee markets and improved its shares in the Japanese and Saudi Arabian markets. In all markets, the washed (higher quality) coffee export increased with the exception of Germany (the far leading buyer of washed coffee).

While Ethiopia has traditionally focused on exporting coffee to Europe and the United States, there are numerous opportunities available in emerging markets like Asia, the Middle East, and Africa. Proactively exploring these new market opportunities can help Ethiopian coffee exporters diversify their portfolio and mitigate the risks associated with overdependence on a limited number of markets. To tap into these new markets, the Ethiopian government can support these efforts by negotiating trade agreements and promoting Ethiopian coffee through diplomatic engagements and trade missions. Furthermore, by focusing on quality and differentiation, Ethiopian coffee producers can capture a higher market share in the specialty coffee industry.

The data gathered through questioners as well as discussions with key informants and FGD reveal that, though Ethiopia has high potential and opportunities to lead the world coffee market, there are some challenges that need to be addressed. First, coffee exporting companies have very limited marketing knowledge and information about the international coffee market and destinations. This is partially due to the inadequate commitment and effort of the respective company management. Second, most coffee exporting companies lack an appropriate and working marketing strategy. In this regard, companies' commitment to identifying potential buyers and distributors overseas is a challenging task that is not yet given due attention by companies or exporters. For all these to happen, of course, acquiring trained human capital is a must. Consequently, most companies are affected due to the inefficiency of the institutions promoting exports.

By the same token, value addition is given little attention by both the government and exporters**.** The main reason for this, per the exporters and respective government offices, is the fear of competition from the importing countries. According to the key informant, who is a higher official from the Coffee and Tea Authority, "the importing countries are good at value-added coffee production." They have huge experience and advanced technologies. Therefore, it is rather less likely to compete and earn from the value-added coffee. Hence, market entry and production capacities in value-added varieties, like roasted or decaffeinated coffee, are major challenges.

The seasonality of Ethiopian coffee production is also considered a challenge to coffee export performance. As for most agricultural crops, the production, processing, and marketing of coffee are characterized by important seasonal patterns, which adversely affect coffee export performance.

Like other export sectors, coffee exporting companies also face a scarcity of foreign currency. With the economy struggling to earn sufficient foreign exchange to finance imports of goods and services from abroad, the scarcity has led importers to resort to unconventional means to facilitate their trade. Furthermore, there is a lack of fair and free competition between exporters at the local market or at the ECX market and unnecessary price competition by being price competitive even below breakeven.

Oilseeds and Pulses

Ethiopia is a large producer of oilseeds and pulses. Good and diverse climate conditions make Ethiopia one of the most convenient agro-climate zones for the production of different types of oilseeds and pulses. The cultivation of oilseeds and pulses is carried out in both the highland and lowland areas of the country, mainly by peasant farmers. In Ethiopia, many smallholders and a limited number of large farms grow oilseeds. Oilseeds are cash crops on subsistence farms. Their production is characterized as labour-intensive, low-input, and rain-fed. The potential to increase production is huge. Productivity per hectare can be doubled with higher input levels, including fertilizer and improved seeds. Area expansion by virgin and fertile lands offers good opportunities for organic oilseed production. Due to the low levels of input and the use of virgin new areas, oilseed production in Ethiopia is near organic standards.

Currently, the country exports a large quantity of these commodities to the international market. What is more, the availability of abundant labour at relatively low prices compared to other countries and the majority of rural population compared to urban population can be taken as one of the opportunities available for the oilseeds and pulses sector.

The research has identified market opportunities, especially in organic and conventional sesame; organic and conventional mung beans; soy beans; sesame oil; and tahini. The newer crops, soya and mung beans, have been emphasized as new opportunities in the country. The cultivation of pulses such as chickpeas, red kidney beans, and white pea beans is common in Ethiopia. For example, Ethiopia is the sixth-largest producer of chickpeas in the world.

While agro-ecology and availability of labour are important opportunities, it is also worth mentioning the government's plan and commitment, which were demonstrated in various plans and initiatives. For instance, in the Growth and Transformation Plan of 1 and 2 and in the home-grown economy initiative, the government started economic restructuring and has been investing in road, telephone, and railway infrastructure in order to double agriculture production. The construction of industrial parks to expand the production of various value-added products would also provide opportunities for the oilseeds and pulses sectors.

Opportunities that could help to boost Ethiopia's competitiveness regarding oilseeds and pulses also emanate from the quality of Humara-type sesame from Ethiopia, which is a benchmark for the sesame sector (it has an exceptional taste profile for tahini); what is more, demonstrably GMO-free soya beans, for which a market exists, including Europe, are currently serviced from

countries with greater GMO risk. Hence, sesame oil and tahini consumption are growing in the European market in addition to the traditional Asian markets.

The country already has long-standing trade relationships with a significant number of destinations, although exporters are lately focusing more on the easier-to-serve Asian market. However, major oilseed export destinations are shifting their imports away from Ethiopia. For example, China has been the second-largest destination of Ethiopian sesame seeds next to Israel and the third-largest destination of Ethiopian Niger seeds next to the USA and Vietnam. Nevertheless, China is shifting to other competitive African countries like Sudan, Niger, Togo, Mozambique, and Tanzania, and in turn, Ethiopia's exports to China have been steadily declining over the past three years. According to the sector association leaders, who were key informants as well as experts from the ministry of trade and regional integration, pests, disease, higher domestic prices, and market distortion by illicit traders are considered the main reasons for the loss of the Chinese market.

Internationally, there is a growing concern among consumers about the environment, food safety, and nutrition. In addition, consumers are increasingly aware of production methods and income distribution in ingredient-producing regions. These developments have led to an increase in certification schemes and a number of sustainability labels on the international market, particularly in the European market. On the other hand, the use of agrochemicals is not extensive in Ethiopia; the use of pesticides is not very extensive; and raw materials are often grown in a way that is compatible with organic certification. However, there is very little quality infrastructure.

As a result, the interviews, especially those with sector associations, revealed that most exporters focus on the Asian market, with China, India, and Pakistan being the main destinations. There is very little focus on exports of any oilseed or pulse to Europe. About half of all exports (44%) are destined for China, and there is still growth potential in this market. The strong dependence on the Chinese market was perceived, however, as challenging, as it has exposed exporters to detrimental price disputes.

Despite the expectation of high quality standards, there is a huge opportunity that can be exploited. The change in the consumption pattern because of the increment in health consciousness, the growing number of vegans, and the demand for specialty foods would push the international demand upward. For example, the growing popularity of sesame seeds as an

important element in various cuisines, confectionaries, and applications in the pharmaceutical and medical industries will drive up global demand for sesame seeds. The growth of other niche segments that produce sesame-based foods is also expected to increase demand in the coming years (USDA, FAS Report Number ET2020-0001). Therefore, Ethiopia's export potential for oilseeds is huge. Sesame seeds, in particular, were considered to have high potential. Other oilseeds have comparably lower, yet so far unexploited, potentials.

According to the key informants as well as participants in the focus group discussions, "despite the huge potential to vertically diversify into edible oils, low production of oilseeds and inadequate facilities (storage, transportation, post-harvest handling, and packaging)" are key challenges that need to be addressed in order to make the sector competitive.

Similarly, there is also huge potential for pulse exports. Pulses are a very valuable protein replacement for meat-based products. There is a growing social, nutritional, health, and environmental trend in the international market as consumers look for alternative sources to supplement their protein requirements. As a general rule, consumers are becoming more aware of health issues and are becoming more interested in authentic as well as clean products. Exporters can anticipate these trends by focusing on nutrition, organic products, veganism, food intolerances, and "ancient" grains. According to FAO (2016), "Global demand for pulses is growing, driven by demographic and income trends and increased consumer consciousness of the nutritional value and other health benefits of pulses, especially in relation to coeliac disease and gluten sensitivity."

In addition, there are marketing opportunities in Europe for some high-volume pulses, such as soy beans, if they can be certified as GMO-free and/or organic. The growth in trade for pulses has been hindered by a lack of product innovation to match modern consumer habits. Soy beans, for instance, have not yet been sold to China, even though the market for this product is enormous. Looking for innovative ways to repackage pulses for modern consumers could satisfy the general trend towards ready-to-eat meals that are quick and easy to prepare. Unfortunately, to satisfy this trend would require investment in research and the industrial processes required to manufacture such products.

Regarding the opportunities for Ethiopian oilseeds and pulses exports, international demand for Ethiopian seeds and beans and abundant arable land findings are consistent with the findings of Amsale H. (2017). Findings in relation to demand and cheaper labor costs are also convergent

with government economic structuring as an opportunity, which is also consistent with the finding of Alemayehu A. (2019).

On the production side, the principal problems of the oilseeds, in general and sesame in particular, currently seem to be in production, aggregation, and grading. The vast majority of farmers are smallholders on highly fragmented land. Smallholders in general have no training in good agricultural practices, no culture of profit optimization, and likely little understanding of economics. One of the sectoral associations' leaders, during the key informant interview, stated that "though commercial or investment farmers exist, they are often not more professional than smallholder farmers." Companies sometimes own farms "just in case" they need exports or as collateral for property development in the cities. This does not mean, of course, that there are no large commercial exporting farmers with good knowledge and influence in their community, the same key informant added.

The most commonly used strategy to resolve similar issues is out-grower schemes. In Ethiopia, these schemes have had little success because there is a lack of contract culture. Exporters that have tried to implement their grower schemes have negotiated contracts with individual farmers or farmer organizations, only to find their business partners defaulting on the terms later. According to most of the exporters who participated in the focus group discussion as well as experts from the ministry of trade and regional integration, there is little culture of sticking to the terms of agreed contracts, tremendously increasing the risk of a default for exporters as well. Some fault can be assigned to not having found the right "package" with which to provide farmers. In some cases, for example, farmers were not offered a premium for their organic product; this situation provided no incentive to grow properly and has led to cross-contamination with pesticides when farmers grew rotational crops conventionally.

The above issues and opportunities were discussed with representatives, mainly from the export sector. The challenges and opportunities in the commodities were listed, and the general picture was discussed. Participants were also asked to identify other oilseeds and pulses, in addition to the currently exportable ones, that presented opportunities for the Ethiopian export sector in their opinion. The participants identified groundnuts (although they claimed that Ethiopian production cannot cope with aflatoxins at the moment). For pulses, soy beans and white pea beans were identified. After focus group discussions, the following commodities appeared to have the greatest potential: organic sesame, organic mung beans, conventional sesame, soy beans, and sesame oil.

Apart from production, if one critically investigates the oilseeds and pulses market, Ethiopian market prices are distorted. The Ethiopian oilseeds and pulses sector in general and the sesame sector in particular are currently distorted by two factors: the overwhelming presence of smallholders and the serious shortage of FOREX. Both factors, together, lead to a non-competitive pricing structure in the sector, which needs to be addressed in the framework of any successful intervention. As a result, many of the professional exporters of agricultural goods have been replaced by foreign-seeking import organizations.

In support of the above claim, most of the top exporters said loudly, "Agricultural exports have not been profitable in recent years." The export sector in general and the oilseed and pulse exports in particular, per the questioner and interviews with key informants, are dominated by import-export businesses focused on imports. Most such organizations invest little in their agricultural value chains and lack an understanding of food safety and quality control. The general attitude is that of short-termism, where agricultural goods are exported against minimum standards as soon as possible. Meeting the strict requirements on food safety and quality does not interest these exporters. Likewise, evidence showed a lack of understanding of market opportunities. Especially regarding prices and value-added products, not all exporters were too clear on the details. Possible solutions are being discussed; we recommend a twofold strategy of shortening the value chain by working with exporting farmers and out-grower schemes on the one hand and increasing the number of value-added products (some of which will be produced by farmer organizations) on the other. Currently, the most pressing issues in relation to sesame oil seeds are: an increase in domestic prices that is crowding out the most serious exporters and leading to a loss of international competitiveness; irregularities in grading at ECX warehouses; and stagnant or declining yield trends resulting in low supply.

Mining Sector: Gold

The majority of Ethiopia's mining potential is tied to its gold industry, with an established history of production providing a stable base for new investments in the commodity. According to the ministry of mining, Ethiopia boasts around 200 tons of gold, and with a further 360 million tons of coal and 69 million tons of iron, there is every reason to be optimistic about the country's mineral future.

The gold mining industry is segmented into two components: modern and artisanal gold production. Artisanal gold miners who supply non-monetary gold to the National Bank of

Ethiopia (NBE) for export make up around 50% of total production. According to the data from NBE, Switzerland is the destination of more than 99 percent of the gold exports from Ethiopia.

Yet, the gold export sector in general has been showing poor and declining performance. Gold export earnings have been on the decline in recent years. One can list a number of bottlenecks that can explain the dismal performance of the sector.

The greatest challenge facing the sector is, according to the senior expert from the ministry of mining, contraband, which continues to present a danger to the mining industry. Of the production, a large volume of gold extracted from Ethiopia is being smuggled. Equally important challenges are issues related to income tax payments, which are sometimes raised as a potential factor pushing miners and traders to the informal or illegal market. Since the income tax as well as the royalty that is payable by each miner or trader are calculated based on the transaction values, miners and traders have the incentive to supply their outputs to illegal or informal traders for the sake of hiding the value of their transactions. Given that it is difficult to trace the production or transaction values of each miner or trader, the government needs to design alternative ways of enforcing such payment obligations. The current system makes the government lose in terms of both tax revenue and channelling gold to the formal market.

There are also challenges raised by the producers. According to key informants from the ministry of mining as well as the participants of focus group discussions, a large number of artisanal and small-scale gold miners complain about the lack of support and attention given by the regional mining bureaus. Although these institutions are entrusted to support and promote the sector, there is evidence that they are not helping it as much as they should. Specifically, miners complain about the lack of material (tools and technologies) as well as training that can enhance the productivity, quality standards, and health and safety of the mining activity as a major problem. Most artisanal and special small-scale miners are heavily dependent on traditional tools and techniques, compromising their productivity and quality of production. As a result, graduating from artisanal to special small-scale mining in the given two-year period is a challenge for most.

Khat

The country had suitable environmental conditions for khat production, which is an excellent opportunity for the producer farmers as well as traders. Khat showed remarkable growth from

time to time as compared to other exported commodities. As a result, Ethiopia is the world's largest khat source (Tesfa, 2017).

The production of khat expanded increasingly from time to time due to several reasons. One of the factors for the expansion of Khat was the increasing market demand for the plant (Ibid.). The proximity to the road network, favourable price, and irrigation facilities on farms are also factors that contributed to market opportunities. On top of this, Khat needs a smaller area and fewer resources for cultivation, according to exporters. On the other hand, the Ethiopian government gave attention to Khat due to its economic value. For example, it generated the fourth-largest volume of export revenues after coffee, gold, and cut flowers in 2021–22. Nonetheless, there was no policy direction taken by the government towards encouraging producers and exporters.

Khat is exported fresh or dried. The fresh Khat is usually exported to nearby countries like Kenya, Djibouti, Somalia, and Yemen. While the lion's share of exported Khat goes to Somalia, the rest goes to Djibouti, other African countries, Asia, and Europe. It was also exported to the USA and the UK before both countries banned it. Some countries discourage fresh khat since it is stronger than the dry. Khat releases a stimulant called cathinone when the leaf is chewed. Its stimulant qualities start to diminish three days after harvesting. As a result, fast transportation is needed to transport it to other countries.

Discussing diversification, the key informants and focus group participants (most of whom are from major kaht exporting companies) argue that there is ample potential for vertical diversification. They gave Kenya as an example and explained that where khat production is supported by the government, the benefits from export are significantly higher than in Ethiopia. For example, in Kenya, khat extracts are even evolving into industries, including beer, wine, juice, and flavours. Complementing this argument, an expert on the area who was a key informant emphasizes that Ethiopia must include the commodity in the agricultural extension program and provide support. However, it seems that the government has no support plan for Khat, at least not in the near future.

Usually, khat is exported through two different groups of exporters: private exporters and associations. Khat traders and exporters operate through a number of brokers involved in different markets. Exporters of khat make foreign trade either directly or through an intermediary. The brokers work on a commission basis, which they receive from the suppliers. Khat export associations find direct trade so advantageous that each association has established export as one

of the main functional departments. But private exporters depend on intermediaries to handle their exports. There are export houses that may act as buying agents for foreign buyers or as selling agents for local producers for a commission. Intermediaries may also act as independent exporters through complete purchases and their sale abroad. Most of the exporters to Somalia deal on their own by making a total purchase in Ethiopia and selling it in Somalia (Hargessa, Mogadishu, and Bosaso markets), whereas exporters to Djibouti deliver Chat through the importers' agents who are stationed in Ethiopia.

In the export market, the major challenges stressed by exporters are tax charged on the gross weight that includes the packaging and other accessories, double taxation, irrational quota distribution among the export associations, the fixing of a constant selling price for each season, a lack of standards for the quality and type of khat suitable for export, the absence of a tax refund policy, and the monopoly power of the importer to reject the product simply by mentioning a lack of quality. Furthermore, the exporters bear the losses of damage caused by any transportation problem, even bad weather faced by airlines, even after the acceptance of the commodity by the importers' agent. Moreover, the government does not allow tax refunds for expired products. What is more, unlike other sector exporters, khat exporters do not get any export incentives. Nonetheless, the data from the questioner revealed that almost all khat exporters have been in this business for more than 10 years. This implies that khat Export has a good prospect of staying in business for the long term.

Furthermore, exporters pay a custom duty when exporting khat to the regional states, as opposed to any exportable commodity, which is free of any custom charges. What is more, multiple checking posts in the regions where khat is produced and passes through for export challenge timely export and compromise the quality of the commodity. This finding is consistent with the study findings by the Ministry of Trade and Regional Integrations (2023). In addition, exporters are also supposed to make payments for municipality tax, quarantine, and x-ray charges for exporting khat if it passes through an airport.

Currently, the government tries to regulate the volume of khat exports to the Djibouti market by fixing quotas for each chat export association. However, for the government, fixing quotas for the major export items is not advantageous. Even if it assumes the importance of fixing quotas, such decisions and the process of fixing them should be as objective and transparent as possible.

In sum, it can be said that khat cultivation and distribution have increased rapidly despite official reluctance to promote marketing and consumption. "We do not encourage khat production." "The farms as well as the trade are growing on their own, driven by demand alone," says an official at the ministry of agriculture. He continued, "Frankly, the government only wants the hard currency that khat generates."

The time delays caused by the lack of trade facilitation also hamper export competitiveness. Delays in customs increase warehouse and storage costs, among others. Such delays can also affect the quality of khat and/or lead to the cancellation of orders and claims for damage compensation. Therefore, it is a paramount task to simplify and harmonize trade procedures and formalities for trade facilitation, which contributes to the reduction of trade transaction costs and thereby to the improvement of competitiveness.

Horticulture: Flower

Horticultural products have been the most dynamic agricultural product category in world trade over the past few years. Moreover, compared to Africa's traditional exports to developed markets, such as coffee, price and demand prospects are more favourable for horticulture. This is mainly because of the relatively high income elasticity of demand for the product. Ethiopia, endowed with a diversified agro-ecology, offers an opportunity to produce different varieties of horticultural products in different ecological zones. The environment is ideal for the growth of different fruits, vegetables, and flowers.

Most growers, for example, agree that the climate is suitable for producing high-quality roses with less effort and cost than in other countries. The growers unanimously disclose that the Ethiopian rose has qualities such as a larger stem, a longer vase life, and larger bud sizes. Regarding the cut flower, another opportunity is the country's proximity to major flower markets. Flowers are a fragile commodity that needs to reach the market in good condition and at the right time. In this regard, the geographical location of the country, along with its proximity and fair transport costs to the Middle East and Europe, gives Ethiopia a good marketing opportunity. The large population size of the country also offers a comparative advantage to Ethiopia since the floricultural industry is labour-intensive.

The findings also reveal that Ethiopia has flower sector-friendly policies that strengthen this industry. In this respect, exemptions are made to the industry from: duty-free imports of inputs

with provisional permission to import nationally unregistered inputs; import customs duties and other taxes on the import of investment capital goods as well as on raw materials necessary for the production of export goods; export tax and all other taxes levied on export products and services. These exemptions, of course, are applicable to all exportable products.

These opportunities have allowed the flower exporters to export to, currently, about 60 countries. However, associated with this advantage, there lies a threat of flower diseases in certain humid regions that are uncommon in certain competing countries with cold climatic conditions.

Similarly, adding to the challenges, most planting materials, fertilizer mixers, and greenhouse equipment are mainly imported from abroad and are quite expensive. Though the government allows producers to import the necessary fertilizers and chemicals individually and free of taxes, the producers find it difficult to import individually because of purchase costs, inventory, and transportation reasons. The fact that Ethiopia is landlocked further aggravates the problem from an import perspective, though it does not have any major effect on the export of flowers. The producers also suffer from a shortage of chemicals and fertilizers and find it difficult to obtain these from local markets during stock outs. On top of this, producers and exporters stressed the shortage of water as a big challenge. Since flower production requires a large amount of accessible water, fetching water from faraway places and the import of drip irrigation equipment make the cost of production higher.

Though not a significant and highly affecting challenge, transport operations are also identified as a challenge. In this respect, the exporters are expected to estimate the number of flowers they intend to export and book a place. They have to confirm the reservation 24 hours before shipment. Some exporters and producers find it difficult to predict the exact number of cartons of flowers for export. There arise situations when flowers for export become more than anticipated, but with the booking already made, it becomes difficult to export the excess. The exporters explained that off-loading occasionally occurs due to the continuous growth of the floriculture industry and the increasing number of flower exporters.

On the demand side, the exporters explained that the floriculture industry is very dynamic and seasonal in terms of variety and production. The seasonality of the flower market is pointed out as a challenge. Some flowers are not significantly influenced by seasonal changes, but there are those that are greatly influenced by seasonal changes. Therefore, the seasonality affecting the production of flowers and the demand arising in importing countries need careful analysis, as

seasonal factors make the floriculture industry problematic in matching demand. Demand is high during Valentine's Day, followed by Christmas, when every single stem of roses produced is exported and sold in foreign markets. But there are slow seasons where the competition is severe.

Other factors that further make the competition tighter are the international regulatory environment and standards. Failure to comply may badly affect trade relations and future market opportunities. There are different market requirements that are related to social and environmental aspects of production or the quality of products and processes. Product legislation requires that the focus on environmental and consumer health and safety issues be compulsory in the European market. Compliance with these is very important since Europe is the major flower market.

The major challenge, also expressed during the key informant's interviews and focus group discussion, is market diversification. In this regard, although Ethiopia has a big and flourishing flower industry, approximately 90% of the exportable cut flowers are roses. What is more, exports are predominantly directed to Europe, where 75% is the Netherlands' share. This makes the possibility of risk diversification unwelcoming and makes the industry highly vulnerable. On the other hand, applied tariffs are 0%; hence, Ethiopian cut flower exporters enjoy a tariff advantage over their competitors in these markets. This market also seems attractive in terms of its geographic positioning. Of course, Ethiopia has better risk diversification in terms of exports, for it supplies both Europe and North Africa in comparison to Kenya, which supplies only Europe.

Other general challenges cited are the time-consuming import releases, the lack of sufficient freight space in airlines, lengthy processes in banking services, problems related to the provision of plots of land, the absence of quality packaging materials, and other logistics problems such as cooling facilities at the airport. Generally speaking, one can assert that the major challenges facing the cut flower industry are basically related to inputs for production and logistics.

Discussions about horticulture should also include fruits and vegetables. The largest part of Ethiopia's fruit and vegetable exports are "not further specified" vegetables; hence, it is unclear exactly which product is traded. Being landlocked, Ethiopia sells its fresh fruits and vegetables almost exclusively to neighbouring Somalia and Djibouti, from where they are shipped further to end markets. Only prepared or preserved fruits are directly exported to the United Arab Emirates. The potential in the EU market can be realized if the necessary quality and logistic infrastructure is facilitated. In this sense, the availability of adequate storage facilities and transport equipment, as well as Ethiopia's capacity to comply with the EU's non-tariff measures are fundamental issues.

An alternative strategy would be to strengthen processing capacities to facilitate deliveries to distant destinations. Dried fruits, like dates, apricots, or grapes, and prepared pineapples emerge as feasible diversification opportunities that promise export success in world markets. Particularly for prepared pineapples and pineapple juice, Ethiopia could benefit from a very clear tariff advantage over other suppliers to the EU. FAO (2016) data indicates that Ethiopia produces fresh pineapples in growing quantities.

Textile

The textile market is global and has an increasing trend because it provides a basic commodity for human needs. The industry has continuously relocated itself to low-cost locations. The key attributes of new locations are raw materials, manpower, energy, and water. Since the sector is a priority industry in the country's industrial policy, the government provides various supports and incentives. These include different investment attraction incentives, an export credit guarantee, an investment fund, an industrial premise, an income tax exemption for expatriates, duty-free importation of raw materials, a special tariff (on land, sea, and air transportation and related services for export products), and human resource development.

Indeed, Ethiopia has been considered a potential sourcing destination for the textile industry. A study by Achim et al. (2015) projects that Ethiopia will become one of the top ten apparel sourcing locations in the future, ranking seventh, following Bangladesh, Viet Nam, India, Myanmar, Turkey, and China.

In addition to favourable government policies and strategies, the country's comparative advantage has attracted many investors, many of whom are or supply large global brands. Ethiopia is placed as a country that has an abundant and easily trainable young labour force, a low labour cost, a low energy cost, an abundant and cheap water supply, untapped raw material potential (mainly cotton), relative proximity to Europe and the Middle East, preferential trade agreements (quota and duty-free market privileges in the US and EU), and huge domestic market potential (due to its large population size and recent economic surge) (ITC, 2016; TIDI, 2018).

Another potential source of Ethiopia's comparative advantage in textiles is the huge potential the country has for cotton cultivation. Cotton is a widely used and key input for textile and apparel manufacturing. Given its good climate and soil conditions, Ethiopia has abundant potential for cotton production, especially in areas such as Omo-Gibe, Wabi-Shebelle, Baro-Akobo, and

Tekeze river basins. The country has around three million hectares of potential land suitable for cotton production (Staritz et al., 2016). Further to its huge potential, Ethiopia also has a rich spinning, knitting, and weaving history, which can give it a competitive edge over its competitors (Françoise, 2017).

Despite Ethiopia's widespread areas of cotton cultivation and its huge potential for expansion, as explained by the representative of the textile exporters' association during the FGD, the local supply of cotton is not satisfying the industry adequately. This assertion is also supported by EIAR (2017). Therefore, textile and apparel enterprises must satisfy the remaining cotton lint demand by importing from the rest of the world. For the better part of the last decade, the volume and value of cotton lint imports remained largely stable.

The big opportunity, according to the exporters and experts in the area, is the preferential and differential market access to the U.S., EU, and regional (Africa) markets through AGOA, EBA, and COMESA. In this regard, bilateral agreements made by the Ethiopian government that provided a legal framework allowed the country to enjoy favouritism and remove tariffs. Furthermore, Ethiopia has various opportunities, including a rise in the cost of production of labour-intensive products in the competitor countries (for instance, raising wage costs in Bangladesh, China, India, and Viet Nam), duty-free access to US and EU markets, and the recently signed Free Trade Area among African countries.

Due to its huge potential and relatively favourable business environment, among the sectors studied in this research, textile has manifold diversification options. Exporters and experts in the sector, who were key informants and discussants of FGD, remarked on natural cotton and textile products as new market trends of which Ethiopia could take advantage. For example, woven cotton fabrics and carpets are in high demand in the European market, where Ethiopia enjoys a small tariff advantage over its competitors. Apart from cotton, wool is the most demanded diversification option in China.

While Ethiopia has a clear potential comparative advantage in the textile and garment industries, its strategy of becoming a key sourcing destination for garment products in Africa is challenged by many factors. Consequently, the industry is not yet in a position to be competitive in the international market.

First, the level of productivity in Ethiopia is among the lowest in the world. The low level of productivity mainly resulted from the limited skills of workers, weak management capacities, and reliance on outdate equipment (ITC, 2016). The sector is also characterized by high production costs, mainly due to low skills, limited capability of own design and development, limited utilization of capacity, low quality of raw materials, and inefficient production systems, which seriously challenge the competitiveness of the sector. Interviewees as well as participants in focus group discussions also pointed out the following bottlenecks to be addressed towards greater competitiveness: low productivity due to lacking or old machinery, skills, and discipline; low wages and high labour turnover; an inadequate energy distribution system; and a lack of price information.

What is more, evidence from relevant documents, key informants, and focus group discussants revealed that **r**aw cotton that is produced in the country is not of the desired quality; for textile and garment production, raw materials other than raw cotton are polyester, silk, Lycra, nylon, etc., which are wanted but are not available in the country. In addition, other inputs that are highly decisive for the industry are also lacking or inadequate. In this sense, knitted fabrics for garment industries are not in large quantity; local enterprises cannot produce woven fabrics in different choices, quality, or quantity. In general terms, while the large foreign investment that has taken place in the past is seen as an opportunity, there are challenges that need to be faced and solved.

Furthermore, weak regional trade could also play a role in the poor performance of Ethiopian exports. Though Ethiopia enjoys quota and duty-free access to major markets in the EU and US, Ethiopian products are still subject to quota and high tariffs in many other developing countries that are important markets. Having a strong regional preferential trade agreement would give the country geographically close customers and hence reduce logistical costs, such as transportation costs.

Hence, the Free Trade Area (FTA) among African countries, as well as complete engagement and exploitation of the COMESA and other regional economic blocks' markets, is believed to increase the competitiveness of the country due to its proximity advantage over other more distant competitors and hence will give scope for ambitions for textile and garment manufacturers in the coming years.

In general, if the existing competitive advantage was wisely utilized, such as through greater utilization of cotton production potential areas, creating strong market linkages (both forward and

backward), improving factor productivity, upgrading the quantity and quality of raw materials, and strengthening regional trade (especially with neighbouring countries such as Kenya, Sudan, etc.), Ethiopia could exploit the opportunity to become one of the main sourcing destinations of the textile and garment industry.

Live Animals and Animal Products

Ethiopia has a large livestock base. Accordingly, live animals and animal products are one of Ethiopia's traditional export sectors. Ethiopia possesses significant export potential for live animals, notably to regional markets. Thanks to the abundance of livestock, plenty of diversification opportunities exist in the sector, which seem "easy" to reach given what the country is currently able to offer. The live animal sector was considered to have potential by local stakeholders. Sheep and goat meat in particular were thought to offer possibilities for upscale production.

The diverse agro-climatic conditions of Ethiopia make it very suitable for the production of different kinds of livestock. Most of the livestock are produced by pastoralists, agro-pastoralists, and smallholder mixed crop livestock farmers and sold to private entrepreneurs operating in a marketing chain involving collection, fattening, and transportation up to terminal markets.

The large livestock population in Ethiopia with diverse and adaptable genotypes and diverse agro-ecologies for the production of different types of livestock gives important opportunities to influence the meat and live animal industries, particularly the export sector. Ethiopia exports both live animals and meat to the Middle East as well as some African countries.

Export of meat to Middle Eastern countries is growing, and Ethiopia has a comparative advantage in terms of geographic proximity. Lowland breeds are highly demanded in the Middle East market due to their better taste and the organic nature of production. There is also the possibility of expanding the export market to Asian markets, which require hall-slaughtered, frozen, skin-off carcasses with less stringent hygienic regulations. This growth in demand for meat products around the world represents a great opportunity for livestock-rich countries like Ethiopia.

Ethiopia possesses significant export potential for live animals, notably to regional markets. Even though Ethiopia has ample potential to export its livestock and livestock products to the Middle East and there is demand, there is also potential to export live animals to China and the EU.

However, difficulties in complying with prevailing sanitary measures could make it unlikely that exporters will actually tap into these opportunities. Indeed, challenges in live animals and animal products are not limited to sanitary issues; rather, challenges are more complex and interconnected.

To begin with, producers, traders, exporters, and support institutions are constrained by a shortage of market information to rely on for enhancing production, marketing, and exports. On the other hand, effective export requires knowledge of the client's requirements, producing according to needs, and creating awareness about the availability of products to the client. So far, little effort has been undertaken to strengthen demand in the clients' countries and create segments in other countries by publicizing the special features of the products. In this regard, there is an apparent lack of promotional activities. In the same token, the market information system is lacking; in a sense, there is no reliable source of information, neither on export demand nor on domestic supply situations. Thus, producers, traders, exporters, and support institutions are constrained by a shortage of market information to rely on for enhancing production, marketing, and exports. Livestock marketing is based on quality standards. However, animals' selection is purely based on eye-appraisals, and exchange takes place through bargaining, i.e., there is no grading system.

The limited access to information (market prices, quality requirements, standards, etc.) reduces their ability to be competitive and to access profitable markets (Brasesco et al., 2019). Hence, producers depended on actual market day information or on market information obtained from relatives, friends, or neighbours for prices and selling decisions. In discussions about marketing aspects, key informants and focus group participants mention that primary, secondary, and tertiary markets for animals are poorly organized and scattered, with very poor access to infrastructure like holding grounds and water, resulting in low quality animals. In addition, the rate of transport is the highest cost for livestock trading; as a result, animals are trekked on foot to markets and slaughterhouses, which lead to considerable loss of weight and exposure to physical injuries and illness, which sometimes result in the death of animals.

Exacerbating the marketing challenge, there is informal marketing of cattle, sheep, goats, and camels at border areas with Somalia, Kenya, Sudan, and Djibouti. The annual outflow of live animals from Ethiopia to neighbouring countries through the informal market is very high, and the country loses a huge amount of foreign earnings. Djibouti's and Kenya's re-export after meeting their domestic consumption Furthermore, the Djibouti port is the only port for exporting livestock to Middle Eastern countries. However, the port is ill-equipped to handle large numbers

of livestock. The livestock resting place is too small. It has no sufficient fencing, and there is no compartment for handling different categories of livestock or isolating sick animals. This loss of exportable surplus has affected the country through loss of foreign exchange, income taxes, and its impact on legal livestock trade.

In the international market, world trade is now becoming more competitive and the requirements more strict, which definitely makes export trade more challenging. The world livestock and livestock products trade is significantly influenced by sanitary and health restrictions imposed by importing countries. The ultimate sanction is to impose a partial or total ban on imports from countries that fail to meet the required standards. Although such controls in the importing countries may reflect legitimate concerns regarding food quality and safety and the protection of animal and human health, the high costs of compliance may prove prohibitive for countries like Ethiopia. Many countries compete for livestock and product markets in the Middle East. The main competition for Ethiopia comes from Somalia, Sudan, South America, Australia, New Zealand, Eastern Europe, and the European Union. Available information indicates that Somalia's major export source of supply is believed to be the Ethiopian Somali Region, Eastern Hararghe, and parts of the Bale zones of Oromia.

Hence, it is possible to say that the sector lacks a market-oriented production approach that makes the products competitive on the world market. First, the country's livestock numbers, annual offtake, productivity, and consumption levels are not adequately known. This creates problems in the planning and design of policies to enhance exports. Second, there are many livestock diseases that cause frequent livestock mortalities. The presence of livestock diseases, apart from affecting the efficiency of production, hampers export market development as a result of frequent bans by importing countries. Over the past few years, the country has lost a substantial market share and foreign exchange earnings due to frequent bans by Middle Eastern countries.

As to meat production and export, slaughterhouses and abattoirs lack standardized facilities, and the technologies used are limited to fresh and deboned meat products (Brasesco et al., 2019). In addition, there is a lack of skilled workers to utilize slaughtering facilities, which results in difficulties in fulfilling sanitary and phytosanitary requirements to meet international market requirements and substitute imports. Further, export-standard slaughterhouses are located in central areas far from surplus-producing areas. In addition, transport facilities that allow an adequate flow of livestock and meat are not adequately employed. There are visible limitations

in meat processing quality to take care of competitiveness within the international market and also substitute imports. Especially fulfilling requirements is stifling the exporters of beef.

What is more, the annual outflow of cattle from Ethiopia through the illicit (informal) market is large. The legal export of processed meat is thus constrained due to the shortage created by the illicit export as neighbouring counties get the animals cheaper than the domestic processors as they catch on without tariff and beat the Ethiopian processors in price.

Generally speaking, realizing these market opportunities is hampered by a number of overlapping constraints that, taken as a whole, seem to have a paralyzing effect on the industry. The promise and potential of the Ethiopian meat processing industry value chain are to become a thriving industry that can produce packaged meats destined for Middle Eastern, European, and East African markets. To reach this level of growth and development, operators and investors along the value chain might consider ways to improve the standard and value of meat exports. This is possible, of course, by establishing a standardized grading system for meat and live animals; encouraging more supply into the abattoirs to extend capacity utilization, thereby lowering costs, improving cost competitiveness, and providing more staples for leather producers; and introducing proper and improved feeding, fattening, animal health care, and other services while encouraging foreign and domestic investment in the least important points along the value chain.

Regarding leather and leather products (LLP), the Ethiopian LLP sector has high growth potential. The sector has opportunities that can make it competitive in the international market. First, Ethiopia has one of the world's largest livestock populations. Second, the country is known for its high-quality and internationally renowned sheep leather. Third, Ethiopia's hides and skins are highly known for their natural qualities of clarity, flexibility, strength, thickness, and compact texture. Fourth, the presence of relatively low production costs (wages, electricity) and an institutional regime that is committed to supporting the Ethiopian LLP sector and improving its performance through industrial policy In addition, Ethiopia has market opportunities on the local, regional, and global markets due to duty-free and quota-free market access to key consumption markets and a regional market with high growth potential and market access (the Common Market for Eastern and Southern Africa, COMESA).

In line with these arguments, the interviewees perceived the leather sector as an attractive yet untapped sector that does have the capacity to ramp up production. Shoe manufacturing in particular has seen foreign investment inflows, most of which are from China but also from

Europe and the United States. Expectations that new industrial parks will further support investment and export development are high.

Despite the opportunities discussed, there are also challenges that need to be overcome. A key challenge lies in the low efficiency that seems related to workforce qualification and commitment, old machinery, and a lack of market information. Other challenges include the lack of quality and supply of raw hides and skins from the livestock sector, which has important implications for the whole value chain. The low, and currently also deteriorating, quality of raw hides and skins supply is a result of parasitic skin diseases as well as the prevalent animal husbandry (flaying, branding, curing) and post-mortem management practices (backyard slaughtering and sub-standard collection, storage, and transportation) in the context of a limited availability of infrastructure and services (abattoirs, veterinary services, etc.).

The underlying issue is the low commercial value of hides and skins, which limits the interest of farmers in improving current practices. The seasonality of supply due to the three festival seasons in January, September, and May adds to the challenge for tanneries to source hides and skins for further processing. As a result, (i) tanneries are operating at low capacity utilization rates; (ii) global buyers have to some extent stopped or reduced imports of finished leather from Ethiopia, in particular since global demand for different colours increased in recent years (black tanned leather might cover defects); and (iii) leather manufacturers have difficulties sourcing quality leather locally for export markets.

To conclude, the export of animals and animal products has the potential to be competitive and also diversify its exportable items, but huge attention is needed to solve the challenges the sector is facing.

5.2. Macro Level: Cross-Current Opportunities and Challenges

5.2.1. Potentials and Opportunities of the Ethiopian Export Sector

Opportunities are natural in the business world, but exploiting them requires strategic thinking, long-term planning, and dynamic policy formulation. Opportunities for Ethiopian exports are:

Demand-side opportunities

Ethiopian export commodities, particularly primary agricultural products, have a good demand in the world market as a result of better nutritional values, a high potential for diversification, a

relatively cheaper cost of production as a result of labour intensiveness, and being highly advantageous in terms of geographical location to the world market. On top of these, most such products are organic.

According to the USDA report for the year 2020, the change in the consumption pattern because of the increment pattern in health consciousness, the growing number of vegans, and the demand for specialty foods would push the international demand upward. For example, the escalating popularity of sesame seeds as an important element in various cuisines, confectionaries, and applications in the pharmaceutical and medical industries will drive up global demand for sesame seeds. The growth of other niche segments that produce sesame-based foods is also expected to increase demand in the coming years (USDA, FAS Report Number ET2020-0001).

The rising global demand for primary commodities could moderate or even compensate for the fall in prices caused by expanded primary commodity supply by increasing Ethiopia's earnings from primary exports.

Production-side opportunities:

Agro-climate zones and arable land: According to Boere, A. et al. (2015), of the total 112 million hectares of land Ethiopia possesses, 45% of it is arable and only 1% of it is irrigated. The availability of large amounts of arable, fertile land is taken as a potential for exportable commodity production. On top of the availability of adequate arable land, good and diverse climate conditions make Ethiopia one of the most convenient agro-climate zones for the production of different types of exportable primary commodities. What is more, the availability of abundant labor at a relatively low price compared to other countries and the majority of rural population compared to urban population can be taken as opportunities.

Ethiopian export commodities with better development prospects (as suggested by the respondents) include oil seeds, pulses, fruits, cut flowers, coffee, sesame seeds, Niger seeds, tin seeds, chick peas, red kidney beans, lentils, leather and leather products, khat, fruits and vegetables, gold, flowers, spices, bees' wax, meat and dairy products, shoe wear, cement, fish (artificial production), food supplements, poultry products, sugar and minerals, potash, hides and skin, precious metals and precious stones, processed hides and garments, tantalum, herbs, and beverages.

Geographical Proximity to Key Markets

Ethiopia's close proximity to key markets presents significant opportunities for expanding its export base. The Middle Eastern markets, including Saudi Arabia, the UAE, Israel and other Gulf countries and the Asian market like China, India and Pakistan are easily accessible due to short shipping routes. This geographical advantage reduces shipping times and costs, making Ethiopian goods more competitive. Additionally, the high demand for agricultural products in the Middle East and Asia aligns well with Ethiopia’s agricultural capabilities, enabling the country to supply fresh produce, livestock, and grains.

Market Related: Preferential Tariff Regimes and Trade Agreements

By virtue of its membership in the Common Market for Eastern and Southern Africa (COMESA), which encompasses 21 countries with a population of about 400 million, Ethiopia enjoys competitive market access to these countries. The country also qualifies for preferential access to the European Union market under the EU's Everything-But-Arms (EBA) initiative and to USA markets under the African Growth and Opportunities Act (AGOA). Furthermore, a broad range of manufactured goods from Ethiopia are entitled to preferential access under the Generalized System of Preference (GSP) in the USA, most countries of the EU, and other developed countries. No quota restrictions are placed on Ethiopian exports falling under the products currently eligible for GSP treatment. Ethiopia's proximity to the Middle East and Asian markets also offers further potential market opportunities.

Government economic restructuring towards agriculture

Ethiopia has followed a free market economy in which the government plays a facilitation role in the sector by providing several incentives and building huge infrastructure to boost the sector. The government's plan and commitment were demonstrated in the Growth and Transformation Plans 1 and 2 (GTP 1 and 2), as well as the home-grown economy approach. In these plans, the government started economic restructuring and has been investing in road, telephone, and railway infrastructure in order to increase agricultural production. The Ethiopian government has also forwarded the following incentives:

Big industrial parks have been constructed in different localities: The parks are designed to host production plants for both local and foreign companies willing to outsource their production or

start a new production plant in Ethiopia. This specialization has been decided upon to adapt the functionality of the park to the sector's necessities, thus improving economies of scale and production efficiency there. To make those parks attractive for foreign investors, the government has implemented a variety of incentives, both fiscal and non-fiscal. Moreover, the planned improvements to transportation, especially the road and railway networks, have given better access to these parks. One important opportunity for export in this regard is that at least 90% of the production is to be exported abroad, while only 10% can be sold to the local market. This is the government's strategy to improve the country's import-export ratio, which is currently largely imbalanced.

Energy: Energy is one of the most significant sectors for Ethiopia's economic growth and development. We expect power generation to increase significantly in the medium term. Ethiopia possesses significant renewable energy potential, especially hydroelectric, and seeks to exploit these resources by increasing the installed capacity of renewable energy sources. This has huge potential to install manufacturing industries for export.

In order to enhance the export sector, the government has established the Ethiopia Commodity Exchange (ECX), a marketplace where buyers and sellers come together to trade, assured of quality, delivery, and payment. ECX assures all commodity market players the security they need in the market by providing a secure and reliable end-to-end system for handling, grading, and storing commodities, matching offers and bids for commodity transactions, and a risk-free payment and goods delivery system to settle transactions, while serving all fairly and efficiently. In order to further encourage investors and businesses to engage in exporting Ethiopian products, trade incentives provide advantages to exporters.

Export Trade Duty Incentive Scheme: The purpose of the scheme is to relieve exporters from the burden of duties and taxes that add to the cost of an export product, which can have a significant impact on export competitiveness.

Three types of duty incentive schemes are available:

Duty drawback scheme: exporters would be refunded 100% of the duty paid on raw materials used in the production of commodities upon exportation of the commodity processed. The duty includes all indirect taxes and duties paid on raw materials and commodities imported or produced

locally. The investors can also import machinery with all the attachments with no tax and also export free of tax.

Voucher scheme: A voucher is a document having monetary value, printed by the Ministry of Finance, to be used as a deposit for duties and taxes payable on imported raw materials. The voucher is issued by the Ethiopian Customs Authority in the amount of taxes and duties paid on raw materials they may import.

Bonded manufacturing warehouse scheme: the beneficiaries are producers wholly engaged in exporting their products and who are not eligible to use the voucher scheme.

5.2.2. Challenges of the Ethiopian Export Sector

Supply chain effects on competitiveness in international markets

Diversifying products often involves sourcing new raw materials, establishing new supplier relationships, and managing a more complex supply chain. Ensuring a reliable and efficient supply chain for diverse products can be challenging, especially when dealing with different suppliers, production processes, and distribution channels. In addition to the inherent daunting task of establishing an effective supply chain, Ethiopia's complex, fragmented, and poorly regulated supply chain leads to inefficiencies and a lack of transparency. Subsequently, these factors make it difficult for Ethiopian exporters to compete in international markets, where traceability and sustainability are increasingly important. Exporting involves managing a complex supply chain that spans multiple countries and involves various stakeholders. Challenges in this category include sourcing raw materials, managing inventory, coordinating production and delivery, maintaining quality control, and building strong relationships with suppliers and logistics providers.

Limited availability of raw materials and inputs from the domestic market: One of the challenges affecting the sectors under study is related to the limited availability of raw materials and inputs from the domestic market. In many cases, this refers to agricultural products that the industries, for example, livestock for meat and leather and cotton for textiles require, and in turn, inputs for agricultural industries such as fertilizers or animal feed are also lacking. This lack of domestic value chains forces businesses to source raw materials from imports, which drives up costs and thereby affects competitiveness on foreign markets. Such scarcities also sometimes limit output altogether due to the foreign currency shortage. While using local sources for inputs, which are

of inferior quality and sometimes high cost compared to imports, the unreliability of suppliers and fluctuation of availability from time to time are also critical challenges. Conscious of these problems, respondents were asked to state their level of agreement on whether issues related to inputs have an impact on their products' demand in the global market and on their competitiveness. The majority are in strong agreement with inputs' impact on demand and competitiveness.

The other input found challenging is availability of skilled labour. A highly skilled labour force is critical for firms to build export competitiveness. The respondents emphasized, the market does not have enough skilled labour force. The shortage of skilled labour is the most significant constraint reported by not only the majority of exporting firms but also by regulatory bodies' representatives that participated in the study. As a result, both R&D propensity and the skills base for the creation of new knowledge in Ethiopia are low. In this regard, both workers in companies and experts in the regulatory institutions lack important skills that are critical to increase competitiveness. Hence, it is difficult for Ethiopia to build competitive capabilities in modern industry with such low skills levels. According to the exporters, it is a very demanding task for them to meet timely deliveries with the necessary quality; which in turn has a negative impact on Ethiopia's export competitiveness. Therefore, the sector needs to be supported by a skilled labour force that will master, adopt, adapt, and manage emerging modern technology to relax Ethiopian export supply constraints.

Limited Infrastructure

The availability and quality of infrastructural services are critical to economic activity in terms of determining the costs, profitability and viability of different economic activities. They also influence the attractiveness of different countries/locations for investment, and the type of economic activities. Reliable and reasonably priced infrastructure is one of the main requirements for export diversification and competitiveness. Infrastructure includes transport (land, air and maritime), electricity and water, and telecommunications. Infrastructure in Ethiopia is one of the major impediments to export expansion and growth. This covers transport infrastructure (road, rail and air) and production-supportive infrastructure, mainly quality related. Transport infrastructure must be supportive of trade in general and export development in particular. Ethiopia is a landlocked country, a fact that puts the flow of goods into and out of it beyond its control and subject to the control of countries through which its trade routes pass. The efficient flow of goods from a landlocked country requires good roads and railways infrastructure, and

efficient port handling facilities. Where those are absent, there is an escalation of costs occasioned by the distance to faraway ports. Others costs are added by trade facilitation charges in neighbouring countries as goods transit their territories. Delays are often a major cost on both imports and exports, which make them more expensive and thus less competitive.

Weaknesses in the transport infrastructure and logistics services: Exporting involves managing the logistics and transportation of goods across borders. Challenges in this category include selecting appropriate shipping methods, managing freight costs, navigating customs procedures, ensuring proper documentation, and addressing potential delays or disruptions in the supply chain. Weaknesses in the transport infrastructure and logistics services are among the key constraint for exporters from a majority of sectors. Moreover, Ethiopia whose main exports are bulk primary commodities is disadvantaged in terms of transport logistics, because its exports require large amounts of shipping space, while the imports tend to be finished products that require much less. Furthermore, as Ethiopia is landlocked country, moving goods for shipping still takes a lot of time. As a result, according to the exporters and officials from Ethiopian Shipping, many ships arrive empty to the ports Ethiopia is using, putting exporters at a disadvantage when negotiating with international shipping lines. One of the key informants concludes that:

"Transport costs have a significant negative impact on Ethiopian exports or the location of manufacturing activity in Ethiopia, which is more important than generally recognized. Freight rates for Ethiopian exports often are considerably higher than those on similar goods originating in other countries and these charges often conceal very high rates of effective protection for processed goods — a point that significantly reduces incentives for new investment in export-oriented production activity."

Indeed, transportation problem also partly refers to domestic infrastructure, in particular in rural areas, where e.g., lack of access and feeder roads is a problem for many agricultural sectors, affecting productivity of operations both for the domestic and export markets.

Technology: Exporting may require leveraging technology and infrastructure to facilitate efficient operations. Challenges in this category include access to reliable internet connectivity, e-commerce platforms, digital marketing tools, and ensuring data security and privacy compliance.

Weak Quality Infrastructure: A functioning quality infrastructure is important for exporters in various ways. First, export needs support in upgrading production and products to ensure safety, standards and quality requirements in target markets according to international norms and standards. This to a certain extent is an issue of strengthening productive capacity, but it requires a functioning quality infrastructure in Ethiopia that is capable of providing the needed support to businesses. Second, conformity assessment services are required to certify that Ethiopian export products meet the requirements in target markets; this requires laboratories and certification bodies that are accredited by international bodies. In the absence of such conformity assessment recognized by the authorities in the destination country exports either cannot take place at all or are subjected to time consuming and costly testing in the destination country. For the agricultural sectors and other perishable and food products, post-harvest infrastructure, including storage, the absence of cool-chains, the lack of internationally accredited certification bodies and slow procedures for exporting are binding constraints for exporting (and partly production). According data acquired from Conformity assessment authority, the capacity to test the required standard per the destinations markets is highly limited. For example, among the commodities under study, only testing is available only for sesame, Niger seed, dry faba beans, soya beans, coffee and meat and meat products. Indeed, these are the laboratory availabilities, in most cases the certificate given by the laboratories could not get acceptance in European market.

As a result, quality control issues affect Ethiopian exports to international markets. For example, despite Ethiopia's high-quality coffee, inconsistencies in flavour profile and grading standards affect global perceptions. Inadequate processing and post-harvest practices can lead to lower quality coffee, impacting Ethiopia's competitiveness in international markets.

Access to and cost of Finance

Product diversification can involve significant financial investments, including research and development costs, production changes, marketing expenses, and distribution network expansion. Managing the financial implications of product diversification and ensuring a return on investment can be a challenge, especially for new entrants with limited resources.

Financial and payment challenges: Exporters face financial risks such as non-payment by foreign buyers, currency exchange rate fluctuations, and difficulties in accessing financing. These challenges require effective risk management strategies, including credit checks, secure payment methods, currency hedging, and trade finance options.

Poor utilization of Finance: Expansion, usage of innovative technologies, acquiring the best skilled labour, all requires finance. This study found out that, most of the exporting companies use own fund and domestic loan to finance their operations. There is an export guarantee scheme in place by the government to support companies in the export sector to import important machineries and inputs to enable them become better competitors in the global market. However, due to lack of knowledge, experience, timely delivery service and efficient monitoring and evaluation process of this plan, the advantage of this plan's exploitation is minimal. Thus, finance still remains a bottleneck for competitiveness since the overall local financial market is not a position to fully support the growth of the export sector.

Cheap loan facility for exporters is also another illicit kind of arrangements. Private Banks lending rate falls between 7% and 20% (NBE, 2019). For exporters, private banks lend starting from 7% to maximum of 11%. As Alemayehu (2019) stated following the interview with private banks officials, most exporters secure loan with this special interest rate privilege and intentionally divert to another sector without permission to the lending bank.

Lack of access to foreign currency: according to specific information received from stakeholders and the desk research this affects the sectors that depend on imported inputs and machinery, as well as require expatriate staff/services paid in foreign currency. For the companies in these sectors, difficult access to foreign currency is a binding constraint for production for exports.

Legal and regulatory challenges

Exporting products requires compliance with various laws and regulations, both domestic and international. Challenges in this regard include poor understanding and adhering to export controls, customs regulations, product safety standards, labelling requirements, and trade agreements.

Problems on the Role of Support Institutes: In Ethiopia, seeking export diversification, government tends to offer the services through specialized public trade support institutions. In practice, however, trade support institutions are almost always less effective. In Ethiopia a number of institutions (ministries, agencies, institutes etc) with unclear and overlapping mandates, both public and private, fail to provide useful services to exporters. This study suggests that export promotion can be successful when support agencies are adequately funded, have a large private representation in management and are consolidated into a single institution rather than a

proliferation of small agencies. In Ethiopia, those conditions are usually not satisfied. The most important role for governments, however, is to provide functional basic infrastructure and public services. The services provided include trade information; assistance in product adaptation and export marketing; assistance in the field of standards, quality management, packaging and labelling; provision of a national trade representation service abroad; participation in international fairs and exhibitions; training; legal assistance; and assistance in obtaining export financing.

Cumbersome Export Procedures and Limited Trade Facilitation: Despite the government's strategies to expand exports, businesses willing to export face a number of procedural and monetary constraints. The transparency of export rules is limited, with procedures not being well publicized or easily available to traders. Essential information for traders is often difficult to find, riddled with uncertainty about its validity and applicability. Exporters have also found that regulations change without advance notification. As a result planning exports and predicting business have been difficult for many exporters.

The cost of exporting and operational constraints in import and export procedures have been identified as constraints in relatively few sectors, but in particular in those that have shown a relatively strong export performance, including Cut flower. This shows that, once businesses have overcome general issues affecting productivity and productive capacity, export rules and procedures constitute the next level of binding constraints for exports.

Political and economic challenges: Exporters may face challenges related to political instability, changes in government policies, trade barriers, economic crises, or currency devaluations. These challenges require monitoring and assessing the political and economic climate of target markets, developing contingency plans, and adapting business strategies accordingly.

Market Related challenges

Market-related challenges relate to understanding and penetrating foreign markets. They include factors such as market research, identifying target markets, understanding customer preferences, competition analysis, and developing effective marketing strategies.

Market research: One of the major challenges in product diversification is conducting thorough market research and analysis. This involves identifying new market opportunities, understanding customer needs and preferences, assessing competition, and evaluating the feasibility of

introducing new products in different markets. Developing new products or modifying existing ones to cater to different markets, however, can be a complex and resource-intensive process. It requires investment in research and development to ensure that the new products meet the specific requirements and preferences of the target markets.

Marketing and branding: Successfully diversifying products requires effective marketing and branding strategies. Each new product may require its own unique positioning, messaging, and promotional activities. Developing and implementing these strategies remain challenging, especially when targeting different customer segments with varying needs and preferences.

Cultural and language challenges: Exporting to foreign markets often involves dealing with different languages, cultures, and business practices. Challenges in this category include language barriers, cultural differences in communication and negotiation styles, understanding local customs and preferences, and adapting marketing materials and product offerings to suit the target market.

Limited International Market information Access/Information: One of the constraints faced by Ethiopian firms in penetrating export markets is limited access to global information, including information on prices and consumer factors. This is particularly acute among new entrants. While there are formal institutions to provide such information, the challenge is to revitalize them as agents for investment and exports and to reduce these information constraints.

Market entry and Market Access Barriers: Some countries impose trade barriers such as tariffs, quotas, or import restrictions, making it difficult for exporters to access foreign markets. Challenges in this category include understanding and navigating trade barriers, exploring market entry strategies, forming partnerships with local distributors, and establishing local production facilities. With regard to the specific barriers faced by sectors:

For all agricultural sectors, SPS requirements are usually very demanding, especially in developed countries' markets. Some furthermore face barriers in terms of demanding quality standards and certification requirements;

For any consumer goods, meeting quality and safety standards, certification requirements, and packaging and labelling regulations, especially in developed country markets is challenging, in particular because of the deficient quality infrastructure in Ethiopia;

Consumer goods (such as meats and live animals) also face a barrier in terms of consumer habits and expectations, which require sizeable investment in brand building in order to enter the market;

Import bans have affected "successful" exports to China, Pakistan, Saudi Arabia, in particular green mung, red kidney bean, live animal, other agricultural products such as Khat would occasionally or seasonally be affected by import quotas for example, Djibouti.

What is more, climate change, pests, and diseases threaten crop yields. This, along with the small-scale farming and limited resources, makes it difficult to keep up with global demand consistently.

Customer acceptance and adoption: Introducing new products to the market requires gaining customer acceptance and adoption. Customers may be hesitant to try new products or may have existing brand loyalties. Convincing customers to try and adopt new products can be a challenge, requiring effective marketing, education, and customer engagement strategies. Hence, introducing new products may also require changes in production processes, equipment, and workforce skills. Manufacturers may need to invest in new machinery, train employees, and optimize production lines to accommodate the diversification. This can pose challenges in terms of cost, time, and operational efficiency.

Risk management: Diversifying products introduces new risks, such as market acceptance and competition. Managing these risks and developing contingency plans is crucial to mitigate any negative impacts on the export.

Distribution and sales channels: Diversifying products often involve expanding distribution networks and establishing new sales channels. This may require identifying and partnering with new distributors, retailers, or online platforms. Managing these relationships and ensuring effective distribution of diverse products can be a significant challenge.

A large portion of the respondents indicate that the Ethiopian export policy is conducive, which may help getting access to the international market. However, it seems that there is lack of effective communication. Information related bottlenecks, from the exporters' side, include: a) Lack of general knowledge of foreign markets; b) Lack of knowledge as to how to identify foreign agents or buyers in destination markets; and c) Lack of credential information on those foreign agents and buyers, which increases uncertainty. There can be learning-by-exporting effects in the

sense that firms who export are able to obtain knowledge about foreign markets through their business partners or buyer-seller links. This information may be direct or indirect.

Unhealthy competition among exporters: Unhealthy competition among exporters in Ethiopia poses a significant problem. This undesirable situation arises when exporters engage in unfair practices or adopt aggressive tactics that harm the overall market dynamics and the growth potential of the country. From focus group discussion, the discussant stressed that exporters are not giving enough attention for the sector and stay in the business to generate and retain foreign currency for the purpose of import profit by the expense of exports. This creates unhealthy competition and to increase the domestic price that affect the price competitiveness of the commodities and has contribute for increasing of imported commodities prices. It can lead to a strained economic environment, reduced profitability, and hindered progress for all participants involved.

Unethical Behaviour of Exporters: conduct among Ethiopian exporters continues to be a persistent issue, as revealed by in-depth interviews and focus group discussions. Dishonest practices, including product adulteration, participation in illegal trade, failure to meet contractual obligations, and falsification of export documents, have been prevalent within the Ethiopian exporter community. These unethical behaviours can have detrimental effects on trade relationships, reputation, and overall business integrity. According to the respondent, defaults in export transactions are attributed to both suppliers and buyers. Some buyers terminate contracts after the commodities have been delivered to ports, while sellers or suppliers fail to fulfil their contractual obligations and, in some cases, completely disappear. These defaults in exports have not only tarnished Ethiopia's image but have also resulted in the loss of significant export markets, as acknowledged by the respondents.

Product-related

Exporting products may require adapting or customizing them to meet local regulations, technical standards, or customer preferences. Challenges in this category include product adaptation, quality control, and ensuring compliance with local standards and certifications. According to the responses of key informants, it is very challenging for Ethiopian exporters to get international market access because the commodities are agricultural products not competitive in terms of cost and quality. Getting market access for agricultural products is very difficult, particularly to developed countries' markets, because developed countries have a common agricultural policy subsidizing their farmers, increasing and affecting the level of competition. Entering into the

export market for such commodities is very difficult, especially getting customers as result of no market research and information.

To summarize the challenges in Ethiopia's export sector, the respondents said that Ethiopia's export commodities are competitively poor. This is possibly due to a lack of integration, a lack of access to infrastructure, the inefficiency of the export facilitators, etc. Similarly, Ethiopian export commodities are weak in terms of cost effectiveness, as a significant number of respondents assert. The possible reasons for this may include the involvement of large parties in the distribution channel and high transaction costs resulting from transportation, storage, and insurance. A significant number of respondents also indicate that the capacity of Ethiopian exporters is poor in terms of backward and forward linkage, management capacity, market knowledge, reliability in terms of delivering the right quantity, a skilled workforce, and coordination among them. Interview results show that most Ethiopian exporters use traditional ways of marketing and management. Other weaknesses suggested include a lack of effective organization, delayed delivery, a lack of supplying quality products, exporting only primary agricultural products, a lack of a skilled work force, a poor market orientation, limited products, and customer knowledge. In addition, poor attention to quality, unethical business practices, a lack of foreign trade research, a lack of innovation in packaging, a lack of self-motivation, a lack of planning while entering the export sector, a lack of demand analysis, a lack of information, and exporting raw materials that are not processed are the weaknesses of Ethiopian exporters.

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

Last but not least, Ethiopian exporters also have such weaknesses as a lack of reliability in terms of delivery time, quality, and quantity, a lack of trust with professionals, and a lack of foreign market research in terms of product surveys and supply bases.

The challenges discussed above are supported by other researchers' findings. Accordingly, regarding the challenges of Ethiopian export performance, productivity is consistent with the findings of Amsale (2017), G/Hiwot (2018), and Kurabachew (2019). A local market price

distortion is consistent with Ayalew's (2016) findings. Amsale (2017), G/Hiwot (2018), Kurabachew (2019), and Tekeste (2012) agree with the finding of international price volatility. Illicit trade and competition in the international market are identified in the findings of Alemayehu (2019), who outlined illicit trade in terms of cheap loans and foreign currency motives of exporters rather than profit. The other researcher's findings on quality, market information, infrastructure, logistics, real effect and nominal exchange rate, poor storage, poor carriage, poor package, cost inefficiency, relative long market chain, misbehaviour of brokers, instability of destination countries, terms of trade, and trade openness are not identified as findings in this research.

CHAPTER SIX: CONCLUSIONS AND POLICY IMPLICATIONS

This chapter presents the conclusion and policy implication of the study on export diversification and international competitiveness in Ethiopia, offering concise yet comprehensive insights into the challenges and opportunities facing the export sector diversification and competitiveness. We consolidate the wealth of empirical evidence and nuanced analyses uncovered throughout our research to present comprehensive conclusions regarding Ethiopia's commodity export landscape. Thorough understanding of the multifaceted nature of Ethiopia's export diversification and competitiveness dynamics, this chapter presents proposed actionable recommendations to steer the country towards a more resilient and diversified export economy. By unraveling the multifaceted nature of Ethiopia's commodity export dynamics, this chapter serves as a blueprint for policymakers and stakeholders to navigate the complexities effectively.

6.1. Conclusions

The overall objective of this research is to assess the Ethiopian export sector's competitiveness and diversification and explore its challenges and opportunities. This objective is met by considering important questions and discussing them in terms of some variables. Accordingly, this research is guided by the main research question: "Is Ethiopia's export sector competitive and diversified?" Accordingly, in this chapter, conclusions are drawn based on the findings from the analyses.

Ethiopia's export structure is heavily reliant on primary commodities, which is common for many least developed countries (LDCs). Such dependence is making Ethiopia vulnerable to external shocks and the state of the global economy because such commodities are characterized by low-income elasticity of demand, volatility of international markets, and declining terms of trade, among others.

Ethiopia has made relentless and massive efforts to diversify its economy and increase export earnings over the last decade. However, the country's export performance indicates that it has been unable to finance the import expenditure.

6.1.1 Ethiopia’s Export Performance

Despite the fact that Ethiopia faces challenges such as the COVID-19 pandemic, security issues, and external pressures, the Ethiopian export sector has demonstrated resilience and achieved positive growth over the study period. The total value of exports has increased from $2747.1 million to $4017.1 million between 2010/11 and 2021/22, with an average annual growth rate of 3.9%. While the export values of different merchandise categories in Ethiopia have shown diverse trends, the majority of items have all experienced positive growth.

Notably, food and beverages, textiles and garments, fruits and vegetables, and minerals other than gold and tantalum have exhibited impressive average growth rates, although their contribution to the total export share is not significant. Conversely, certain categories like live animals, leather, gold (except for a boom in 2019–20 and 2020–21), and oilseeds have witnessed a decline or stagnation in growth.

In terms of price[5], sectors like coffee and oilseed are volatile, while khat, flowers, fruits, vegetables, and live animals show stability. However, prices for exports to Djibouti and Somalia like khat, fruit, and vegetables are determined through negotiations rather than supply and demand rules. Updating these prices is challenging due to political and diplomatic relationships. Pulses, meat, and meat products have seen increasing trends, while leather, food, and beverages have declined. Overall, average unit price changes have been low, indicating stable demand with limited inflation or deflation. However, predicting future trends is difficult due to sector volatility and inaccurate market prices caused by illicit activities and government interventions.

Regarding export volumes, the trends of Ethiopian export volumes differ amongst different items, with some experiencing a steady increase, some fluctuating, and others showing a downward trend. The different trends in Ethiopian export volumes suggest both opportunities and challenges for the country's economy. Sectors that have shown a steady increase in export volumes, such as food and beverages, flowers, fruits and vegetables, and pulses, indicate potential for growth and expansion. On the other hand, sectors that have experienced a decline in export volumes, such as live animals and leather products, oilseed (a slight decline), and gold, for most of the past few years may require attention to address the underlying factors contributing to the decline. It is important to monitor these trends to understand the development of Ethiopia's export sector and make informed decisions for future planning.

[5] [1] *It is important to recognize that the unit price of Ethiopian export items is dynamic and may not be reflective of market prices due to illicit activities (such as under billing to retain foreign exchange abroad, taking advantage of high exchange rates in the black market, and importing goods) and government interventions through the setting of floor prices.*

As to export share, the trend of export product shares highlights the importance of strategic planning, diversification, and value addition in Ethiopia's export sector. The data suggests that Ethiopia has had inconsistent and uneven diversification with little improvement in its export portfolio over the years, moving away from relatively inefficient sectors like live animals and leather and leather products. The growth of sectors such as khat, pulses (except for some declines in the past three years), flowers, food and beverages, fruits and vegetables, meat and meat products, textiles, and garments demonstrates a broader base (diversification) of merchandise exports, which is a positive development for the country's export sector.

However, leather, leather products, and live animals have experienced declines over time. The possible explanations for the decline can be changes in global market demand, supply chain disruptions, loose internal regulation, and policy shifts in destination countries. Coffee, gold, and oilseeds have remained essential contributors to the country's export revenue, but their individual shares have experienced significant fluctuations over the years. In this regard, coffee, gold, and oilseeds best illustrate the case. Coffee exports have ranged from 22% to 35%, while gold exports have fluctuated between 1.1% and 19.1%. Similarly, the export share of oilseeds has varied from 6.6% to 19.7%.

Considering the data from the past twelve years, Ethiopia's primary export commodities are coffee (28.4%), oilseed (13.3%), gold (11.5%), flower (8.8%), and pulse (7.6%). These commodities collectively play a crucial role in generating the country's export revenue.

The shift towards sectors like flowers, fruits, and vegetables indicates an emphasis on high-value and sustainable products. This aligns with global trends favouring environmentally friendly and ethically sourced goods. It also presents opportunities for smallholder farmers and agribusinesses to participate in export-oriented activities, contributing to rural development and poverty reduction.

The growth observed in sectors like textiles and garments suggests an increased focus on export-oriented manufacturing industries. This trend could be attributed to government initiatives aimed at attracting foreign direct investment (FDI) and promoting industrialization. However, it heavily relies on the preferential trade agreements of AGOA and EBA. Indeed, investments in infrastructure, skills development, and trade facilitation measures play a crucial role in supporting the expansion of these industries and enhancing their competitiveness in global markets.

6.1.2. Conclusions on Diversification and Competitiveness

When we see the diversification of Ethiopian exports, despite efforts to achieve export diversification, Ethiopia remains predominantly dependent on exports of primary products. On the other hand, there are new commodities joining the export market, which have helped to reduce the concentration of exports on a few agricultural commodities. While diversification mainly took place at an extensive margin through the addition of new products, there has been an increased concentration of export volumes in a few sectors.

The expansion of exports and economic growth in Ethiopia has not been accompanied by an increase in value addition. In other words, there is a lack of economy-wide improvement in terms of productivity, value added by domestic producers, and long-term structural change.

In addition to product diversification, there are also a few new destinations that Ethiopian products have been exported to in the last decade. The high concentration of exports in a small number of commodity products can create macroeconomic instability, especially during times of commodity price volatility and global shocks, such as those affecting supply and demand.

Making points about destination, Ethiopia's export destinations vary across different commodities, indicating both diversification and concentration in certain markets. Coffee exports are relatively well diversified among many destinations across Europe, the Middle East, North America, and Asia, with strong demand from countries like Germany and Saudi Arabia. Khat exports are primarily concentrated in Djibouti and Somalia due to cultural similarity and proximity to Ethiopia.

Flower exports heavily rely on the Netherlands, highlighting a degree of market concentration, vulnerability, and risks to changes in the Netherlands' market. Textile and garment exports are concentrated in the United States and European Union countries, leveraging preferential trade agreements such as AGOA and EBA. However, over-reliance on these markets can pose risks if conditions change or preferences are withdrawn. Meat and meat product exports heavily rely on the UAE and Saudi Arabia, indicating potential vulnerability in terms of market diversification. China is the primary buyer of Ethiopia's oilseed exports, followed by Israel, highlighting the risks associated with heavy dependence on a few markets.

Ethiopia's food and beverage exports have significant shares in the United States and United Arab Emirates due to the large presence of the Ethiopian community. For fruits and vegetables, Somalia, Djibouti, and the European market, particularly the Netherlands, play important roles.

Live animal exports and leather and leather products have significant markets in a few countries, which suggests that Ethiopia's exports in this sector are also not well diversified.

Export performance analysis in terms of destination regions shows that Ethiopia's merchandise exports exhibit varying trends across different regions. For example, exports to Africa have shown steady growth, reflecting the country's efforts to strengthen regional trade integration through initiatives like the African Continental Free Trade Area (AfCFTA). Meanwhile, exports to Europe and the USA may experience different patterns, influenced by specific market dynamics and preferential trade agreements. Asian countries, including China, Japan, India, Korea, Pakistan, Indonesia, Hong Kong, and Vietnam, represent a growing trade engagement for Ethiopia. Middle Eastern countries have several opportunities for Ethiopia's exports due to its proximity to the region and comparative advantage. The possible conclusion is that while diversification efforts are needed to mitigate risks, opportunities exist in emerging markets and regional trade partnerships. Monitoring market trends, understanding customer preferences, and maintaining competitiveness through quality and sustainability can help Ethiopian exporters maximize export opportunities.

The Relative Trade Balance (RTB) analysis reveals varying levels of competitiveness for different sectors of Ethiopia's exportable items to the world. Coffee, gold, tantalite, flowers, fruits, and vegetables have demonstrated competitive RTB values, indicating Ethiopia's ability to maintain price advantages in international markets. Factors contributing to their competitiveness include favourable agro-climatic conditions, organic and sustainable production methods, competitive pricing, government support measures, and investments in infrastructure and development.

6.1.3. Conclusions on Opportunities and Challenges

On Opportunities

The findings suggest that there are considerable grounds for optimism for Ethiopia's exports, provided that the government is able to commit itself to the necessary institutional and policy reforms at the macroeconomic and industry levels.

- Ethiopia's export commodities are mainly organic (primary agricultural products). They have a good demand in the world market as a result of better nutritional values, a high potential for diversification, a relatively cheaper cost of production as a result of labour intensiveness, and being highly advantageous in terms of geographical locations in the

world market. Therefore, rising global demand for primary commodities could moderate or even compensate for the fall in prices caused by expanded primary commodity supply by increasing Ethiopia's earnings from primary exports.

- Ethiopia is one of the most convenient agro-climate zones for the production of different types of exportable primary commodities. The availability of large amounts of arable, fertile land and good and diverse climate conditions could be taken as an opportunity for exportable commodity production. What is more, the availability of abundant labour at a relatively low price compared to other countries and the majority of rural population compared to urban population can be taken as opportunities.
- Ethiopia enjoys competitive market access to the Common Market for Eastern and Southern Africa (COMESA), which encompasses 21 countries with a population of about 400 million. The country, moreover, qualifies for preferential access to European Union markets under the EU's Everything-But-Arms (EBA) initiative and to USA markets under the African Growth and Opportunities Act (AGOA).
- Ethiopia's proximity to the Middle East and Asian markets also offers further potential market opportunities.
- Ethiopia has followed an export-led free market economy in which the government plays a facilitation role in the sector by providing several incentives and building huge infrastructure to boost the sector.

On the challenges

As the study has shown, Ethiopian exports face a combination of horizontal and sectoral constraints, ranging from general macroeconomic distortions to highly sector-specific impediments. Generally put, Ethiopia is a mainly primary product exporter, and the challenges outweigh the opportunities for export competitiveness.

- Ensuring a reliable and efficient supply chain for diverse products is very challenging in the export sector. This is to say, Ethiopia's complex, fragmented, and poorly regulated supply chain leads to inefficiencies and a lack of transparency. Subsequently, these factors make it difficult for Ethiopian exporters to compete in international markets, where traceability and sustainability are increasingly important. Challenges in this category include sourcing raw materials, managing inventory, coordinating production and delivery, maintaining quality control, and building strong relationships with suppliers and logistics providers.

- Weaknesses in the transport infrastructure and logistics services are among the key constraints for exporters. Challenges in this category include selecting appropriate shipping methods, managing freight costs, navigating customs procedures, ensuring proper documentation, and addressing potential delays or disruptions in the supply chain.
- Quality control issues affect Ethiopia's exports to international markets. Exporting products requires compliance with various laws and regulations, both domestic and international. Challenges in this regard include poor understanding and adhering to export controls, customs regulations, product safety standards, labelling requirements, and trade agreements.
- Exporting products may require adapting or customizing them to meet local regulations, technical standards, or customer preferences. Challenges in this category include product adaptation, quality control, and ensuring compliance with local standards and certifications.
- For the agricultural sector and other perishable and food products, post-harvest infrastructure, including storage, the absence of cool-chains, the lack of internationally accredited certification bodies, and slow procedures for exporting are binding constraints for exporting (and partly production).
- Grading at ECX is reported to be inconsistent; corruption of grading personnel was identified as the reason. There is little scientific, documented grading on the basis of objective standards. Specifically for sesame, the all-important type (Humara vs. Wollega) is determined on the basis of geography, not the product itself. There is no testing beyond physical parameters; as exporters cannot test before buying either, they run the risk of buying goods that are not exportable to the EU because of pesticide residues, salmonella, mycotoxins, or similar reasons. Traceability is lost at ECX due to mixing (although the same happens at traders delivering to ECX who might repack goods from farmers).
- Market-related challenges relate to understanding and penetrating foreign markets. They include factors such as market research, identifying target markets, understanding customer preferences, competition analysis, and developing effective marketing strategies.
- A number of institutions (ministries, agencies, institutes, etc.) with unclear and overlapping mandates, both public and private, fail to provide useful services to exporters.
- Exporters often face language barriers, cultural differences in communication and negotiation styles, understanding local customs and preferences, and adapting marketing materials and product offerings to suit the target market.

- The majority of exporters are not professional exporters who have a sound understanding of the international market or even of the upstream production and sourcing systems.
- The main driver for the export business is not to make an economic profit but to generate forex for financing high-margin imports. Hence, the ease of access to finance is mentioned as one of the reasons for the presence of many exporters who are not professional exporters.
- These companies are import-trading or manufacturing businesses. They make limited investments in cleaning and do not have a long-term business commitment. Some associations, for example, EPOSPEA, are lobbying the Ministry of Trade and Regional Integrations to introduce more stringent requirements for export competence so only qualified businesses can engage. Given that forex is the major driver of exports, national bank policies and regulations have a significant direct impact on export performance.
- Ethiopian exporters are constrained from penetrating export markets due to limited access to global information, including information on prices and consumer factors. This is particularly acute among new entrants.
- Getting market access for agricultural products is very difficult because developed countries have a common agricultural policy that subsidizes their farmers, increasing competition and affecting it. Entering the export market for such commodities is very difficult, especially if you lack market research and information.
- Unhealthy competition between exporters sacrifices the promotion and development of exports. This raises concerns about the sustainability and growth of Ethiopia's export industry, as it may hinder the country's ability to benefit from international trade.
- The consequences of unethical practices are far-reaching. They tarnish the reputation of Ethiopian exporters, making it more difficult to establish and maintain trade relationships with international partners. The country's overall image may suffer, impacting its competitiveness in the global market.

In sum, we may note the following as the main challenges to export development in Ethiopia: dependence on primary commodities whose prices are deteriorating over time and are cyclical in the short run; Lack of diversification owing to deficiency in human (skilled labour, competent managerial class, and efficient bureaucracy) and physical capital (that includes infrastructure) This is further aggravated by a low level of technological know-how and domestic research capacity; a lack of access to markets and market information; and a lack of institutions that ensure

an economically optimal distribution of rents that come from the exporting sector, as well as institutions that could facilitate trade.

6.2. Recommendation Policy Implications

Based on the findings of this study, the following policy implications may be drawn:

- The export sector is regulated by different ministries, which has disintegrated trade facilitation and made the cost of doing export business more cumbersome. Hence, a need for a single export coordination organ is advised.
- The higher commodity and geographic concentration indices, as well as the significant effect of export price instability and commodity concentration on the country's export earnings instability, could indicate the desirability of export diversification in Ethiopia.
- On the other hand, the international demand for Ethiopian agricultural products signifies the possibility of horizontal diversification (diversification within agricultural exports). Thus, efforts should be exerted to identify the specific products into which the country should diversify.
- The policy-induced changes, the possibility of using e-commerce, and the opportunities created by the World Trade Organization, the COMESA FTA, and the AGOA provisions could indicate the existence of a promising prospect for export diversification. This calls for a concerted popularization effort on the part of the government.
- The findings highlighted the possibility of exposure to international competition and external shocks in an export diversification endeavour. Thus, exporters should be information and technology-oriented and flexible to meet the requirements of the market in terms of quality and quantity (product differentiation).
- The fact that the real exchange rate is a significant issue in the country's exports implies that enhanced competitiveness through strict quality control as well as a shift in the structure of production and trade towards income-elastic products such as manufacturers are indispensable in the longer term. So, the NBE should go on with the exchange rate liberalization efforts, and exporters should be quality and quantity responsive so as to exploit the opportunity created by the exchange rate reform.
- In addition to exporting reliable and consistent quality commodities according to the target markets' preferences, supporting participants in the exportable commodity production, improving the exporters' capacity in market information usage, international sales capacity, and negotiation skills are crucial.

- To improve the competitiveness of the country's exports, other factors like increasing productivity and reducing marketing costs should also be considered. Market entry conditions in the form of product and quality standards, health and safety requirements, and environmental and labour standards have become important determinants of accession to global value chains that are dominating international trade in food products.
- It is essential to maintain government support in terms of increasing its international advocacy in order to improve market prices paid by multinational corporations; in this case, coffee is the focus.
- Developing strong promotion strategies and effective branding is essential for creating awareness and recognition in the global market emphasizing the meticulous processing techniques and sustainable practices employed in the production. Moreover, investing in comprehensive export promotion programs that provide financial assistance, market intelligence, and capacity-building support to domestic exporters can help improve their competitiveness and profitability in the international market.
- By implementing effective licensing policies and regulations, the country can have better control over their export activities, promote fair competition, and prevent the reliance on imports to compensate for unprofitable export sectors.
- Addressing unethical practices is crucial to safeguarding the reputation of Ethiopian exporters, fostering trust in trade relationships, and upholding business integrity. Efforts should be made to improve transparency, enforce regulations, and promote ethical business practices throughout the export industry.
- The price of Ethiopian exportable commodities and that of their competitors are important factors in determining the export demand for Ethiopian exports, even though the demand is inelastic. This suggests that price competitiveness should be given due attention.
- In planning production and trade, adequate efforts should be made in the future to exploit the opportunities that population growth in major and other potential destinations and income increases in such destinations' markets would provide.
- Besides, for properly exploiting the present target markets, finding new outlets in potential markets needs adequate attention. Potential markets that have good trade relationships and geographic proximity to Ethiopia (China, the Middle East, and North Africa) need to be served, especially with high-quality processed product types and continuous promotion activities.
- Institutions that are responsible for the export sector should make workable alignments in order to effectively support the sector. In this respect, different institutions with

overlapping responsibilities and duties need to revisit their roles and responsibilities so that they can establish effective coordination among themselves. This would help exporters get credible, accurate, and timely information about their export enterprises.

- Ethiopia cannot hide itself from the globalized world and needs to focus on building its competitiveness. The country can continue its economic integration efforts while bolstering its competitive advantage and integrating into the global market so as to get access to markets for its manufacturing sector. This also gives it the opportunity to defend its interest in global value chains.
- The increase in export earnings is simply the result of improvements in world commodity prices and growth in traditional exports such as coffee and pulses. While such an improvement is reason for optimism, there is concern that it has not been accompanied by structural transformation in the economy, a fact that implies a high degree of vulnerability to shocks and crises. Therefore, in order for Ethiopia to take advantage of international trade, she should diversify her export base by developing productive capacities for the production of higher-value-added goods.
- The findings underline that, currently, there is great potential for the Ethiopian economy to transform and achieve a higher level of diversification and competitiveness. This research clearly demonstrates that in the short to medium term, there is considerable scope for Ethiopia to join the group of successful exporters of traditional as well as non-traditional exports.
- Significant growth potential for Ethiopia includes horticulture, fruits, foods, and beverages, as well as textiles and garments. Traditional agricultural crops such as oilseeds and coffee, like horticulture, have much in common with manufacturing in generating dynamic gains in the form of technological upgrading, quality control, and marketing connections.
- The case for diversification is more persuasive today than ever before because of the continued volatility of primary product prices and the uncertainties about long-run price trends.
- The empirical findings strongly reinforce the importance of institutions and policies that promote structural changes in production and exports. In this sense, Ethiopia does require an industrial policy that facilitates both vertical and horizontal diversification. This supports the importance of governance effectiveness and credibility in the formulation and implementation of sound economic policies.

In sum, the diversification and competitiveness of Ethiopian exports are not yet up to the minimum potential of the country. Hence, it needs more attention from all concerned stakeholders to overcome the challenges that hinder its competitiveness and exploit the opportunities at hand.

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Appendices

Appendix I:

Questionnaire English Version

Dear respondent, I am Kassahun Gofe, a PhD student at Addis Ababa university, College of Development Studies Center for Regional and Local Development Studies. I am conducting research entitled ***'Export Diversification and International Competitiveness of Ethiopia: Exploring Challenges and Opportunities***' to the partial fulfilment of PhD program in Urban Development and Governance Department. Your office is taken as one of the case study institutions for this research. The purpose of the research is absolutely academic. Respondent's identity is kept anonyms with all circumstances. The questioner has six parts. Here, I kindly request you to give honest and genuine answers to all the questions without which the research will not succeed. It will take maximum of 30 minutes to answer all the questions.

I am very grateful for your support!

Part I: General Questions

1. **What type of business does your company run?**

Export only ☐ Import and Export ☐ C. Producer and Exporter ☐

2. **For how long has your company been exporting?**

0 < 5 year ☐ 6 - 10 years ☐ 11 -15 years ☐

16 -20 years ☐ > 20 years ☐

3. **How many people in your company are currently working on export?** ----------

4. **How many people in your company are currently working full-time on exporting?** ----------

5. **What level of Education do managers in your company have, on average?**

Below degree level ☐ BA/BSc degree ☐ Master degree or higher ☐

6. **How the exporting activities are organized in your company?**

Part of the domestic marketing department ☐ Separate export/ International department ☐

Overseas agents ☐ Company employees based in export markets ☐

7. **What Export Item/s do you export most? ----------**

Part II: Capacity Related Questions

1. **Please indicate the extent to which you agree with each of the following statements about your company networking activities.**

Our company:	**Strongly Disagree**	**Disagree**	**To some extent**	**Agree**	**Strongly Agree**
Has a company networking strategy	1	2	3	4	5
Devotes resources to networking activities	1	2	3	4	5
Employs people with good network connections	1	2	3	4	5
Relies mostly on individual networking capabilities	1	2	3	4	5

2. **Please indicate the extent to which you agree with each of the following statements. (Please circle your answer)**

Our company:	**Strongly Disagree**	**Disagree**	**To some extent**	**Agree**	**Strongly Agree**
Uses modern technology and equipment	1	2	3	4	5
Has preferential access to valuable sources of supply	1	2	3	4	5
Has sufficient production/service capacity	1	2	3	4	5
Has access to available financial resources to be devoted to export activities	1	2	3	4	5
Has introduced at least one new product/service in the last two years	1	2	3	4	5

3. **Please indicate the extent to which you agree with each of the following statements. (Please circle your answer)**

Our company has:	**Strongly Disagree**	**Disagree**	**To some extent**	**Agree**	**Strongly Agree**
A significant experience in exporting	1	2	3	4	5
A strong commitment to exporting	1	2	3	4	5
A global, internationally-oriented strategy	1	2	3	4	5
A proactive attitude towards exporting	1	2	3	4	5
A positive perception of export advantages	1	2	3	4	5
An ability to overcome export barriers	1	2	3	4	5

4. **Please indicate the extent to which you agree with each of the following statements. (Please circle your answer)**

Our company:	**Strongly Disagree**	**Disagree**	**To some extent**	**Agree**	**Strongly Agree**
Has strong leadership in technology	1	2	3	4	5
Develops technology by investing in R&D	1	2	3	4	5
Acquires new technology	1	2	3	4	5
Adopts new methods and concepts in the manufacturing/service process	1	2	3	4	5
Provides consistent quality of our products	1	2	3	4	5
	1	2	3	4	5
Meets delivery dates	1	2	3	4	5
Implements a separate, well-defined export strategy	1	2	3	4	5
Has a formalized export planning activity	1	2	3	4	5
Has dedicated resources to researching the export market	1	2	3	4	5
Has a well-defined market selection strategy	1	2	3	4	5
Has an internationally orientated culture	1	2	3	4	5

5. **Please indicate the extent to which you agree with each of the following statements. (Please circle your answer)**

Our company has:	**Strongly Disagree**	**Disagree**	**To some extent**	**Agree**	**Strongly Agree**
Highly-skilled export personnel that deals with international markets/operations	1	2	3	4	5
Export personnel that are experienced in international operations	1	2	3	4	5
Significant company international experience	1	2	3	4	5
Timely export market-related information	1	2	3	4	5
Knowledge about the customers in our export markets	1	2	3	4	5
Knowledge about the competitors in our export markets	1	2	3	4	5
Information related to doing business in our export markets	1	2	3	4	5

Part III: Export Performance Related Questions

1. **Which of the following financial indicators do your company use to measure export performance? (Please, tick all that apply).**

Export profitability	Export intensity growth	Export profit margin growth	Export profit contribution to the company's overall profitability	Export sale volume	Export sales growth	Export intensity - Export sales share of total company sales

Other (please specify): ----------

2. **Which of the following non-financial indicators does your company use to measure export performance? (Please tick all that apply)**

Market share in	Strategic position	Competitiveness	Strategic targets	Rate of new	Capacity utilization	Degree of commitment

export markets	in export markets			market entry		in the export market

Other (please specify): ----------

3. **What has been the trend of your company's export profitability over the last 5 years?**

Increasing ☐ Stable ☐ Decreasing ☐ Fluctuating ☐

4. **Compared to your domestic market profitability, would you say that you're exporting over the last 5 years was:**

Much less profitable ☐ less profitable ☐ same level of profitability ☐

More profitable ☐ Much more profitable ☐

Part IV: Questions about Destinations and Competitiveness

1. **How many countries does your company currently export to?**

1-5 ☐ 6 -10 ☐ 11 – 15 ☐ More than 15 ☐

2. **What is the breakdown of your export destinations to the listed regions/countries? (100 = total export amount)**

	1% - 10%	10% - 20%	20% - 30%	30% - 40%	40% - 50%	50% - 60%	60% - 70%	70% - 80%	80%%- 90%	90% - 100%	100%
Africa											
Middle East											
China											
India											
Israel											
Europe											
USA											
Others											

3. **How do you see competitions from local companies to your export items?**

☐ **Least competitive** ☐ **fairly competitive** ☐ **highly competitive**

Please, explain ----------

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4. **Which country or region do you currently see as your main source of competitors in selling products in your external market? You can mention more than one country.**

    1. ----------
    2. ----------
    3. ----------
    4. ----------

5. **What is the main reason(s) for the competitiveness of such companies/countries? (Select and tick all that apply)**

Price	Quality	Branding	Excellent human resources	Large range of products	R&D capabilities	Marketing (network of companies/individuals in the country)

Other (Specify): ----------

6. **What counter measure(s) will your company take (or is planning to take) against your competitors? (Select and tick all that apply)**

Strengthen R&D capabilities	Expand facilities	Enhance added value of products	Reduce price	Launch new products or models	Boost sales and marketing capabilities	Improve efficiency of logistics	Focus and concentrate on existing products/operations	Acquisition of customers in new fields and expansion of the sales network

Other (Specify): ----------

Part V: Questions about Standardization

1. **For production of your company's main products, are you certified to any standards in areas for which there are no international standards?**

   Yes ☐ No ☐

2. **What measures are you taking for exports to multiple countries with differing product standards? Select an answer based on your experience up to now.**

In-house standards are the strictest of any, so no measures are necessary	Products are produced to meet the strictest of the differing standards	Products are produced to meet each country's standards	Exports to some countries are reconsidered

Other (Specify): ----------

Part VI: Questions on Export Trade Obstacles

1. **In general, how easy is it for your company to Export? (Please circle only one answer)**

Extremely difficult	Very difficult	Fairly difficult	Fairly easy	Very easy	Extremely easy
1	**2**	**3**	**4**	**5**	**6**

2. **Is your product costly to transport over long distances? (Please circle only one answer)**

Not very costly	Somewhat costly	Very costly
1	**2**	**3**

3. **Can your product tolerate harsh or widely varying environmental conditions? (Please circle only one answer)**

High tolerance	Some tolerance	Low tolerance
1	**2**	**3**

4. **The following questions ask which issues in each of the following categories you perceive as particularly serious business problems for your company. (Please select and tick all answers that apply for each category).**

Decrease in orders from clients	Major clients requesting lower prices	Sluggishness in major sales markets (consumption downturn)	No increase in new clients or markets	Decrease in sales prices due to global oversupply	Inflow of cheap imported goods into local markets	Competitors' growing market shares (quality-wise competition)	Accounts receivable in arrears

Other (Specify): ----------

5. **Problem(s) in production (Select and tick all that apply)**

Insufficient production capacity due to lack of facilities	Increase in procurement costs	Difficulty in local procurement of parts and raw materials	Difficulty to switch production items within a short timeframe	Difficulty in quality control	Stricter environmental regulations	Electric power shortage

Other (Specify): ----------

6. **Problem(s) in financial affairs, financing, or foreign exchange (Select and tick all that apply)**

Volatility of local currency's exchange rate against the US dollar	Difficulty in obtaining funds from local financial institutions	Shortage of cash flow necessary for capital investment

Other (Specify): ----------

7. Problem(s) in the investment environment (Select and tick all that apply)

Unstable political or social conditions	Underdeveloped infrastructure (electric power, transportation, communications, etc.)	Unclear policy management by the local government	Complicated administrative procedures to acquire permits, and etc.	Complicated tax procedures	Undeveloped economic and legal systems and arbitrary application of the legal system

Other (specify): ----------

8. Problem(s) in the foreign trade system (Select and tick all that apply)

Time-consuming customs procedures	Lack of comprehensive publicizing of trade rules and regulations	Method of assessment of customs duties is unclear	Unclear inspection system	Strict quarantine system

Other (Specify): ----------

9. Do you continue exporting the same item that you are exporting now or shift to other exportable goods?

Please explain why ----------

Appendix II: Interview Questions for Key Informants

1. How do you evaluate the Ethiopian export sector performance?
2. What does it mean by competitiveness to you?
3. In your view, in which exportable items Ethiopia has a comparative advantage?
4. Based on your experience, what do you think the main challenges that influence Ethiopian export performance?
5. In your opinion, what is/are export policy related problems that discourage exports?
6. What kind of specific supports does your institution provide to exporters?
7. How do you evaluate the feedbacks/ satisfaction of exporters with the support your institution provides to them?
8. What measures, do you think, are appropriate to enhance the export sector Competitiveness and diversification

Thank you for your time!