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## **Assessment of Export Trends in Ethiopia**

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**A Research Thesis Submitted to Addis Ababa University College of Business and Economics Department of Management, Graduate Program in Partial Fulfillment of MSc in International Business: Strategic Investment Management**

**November, (2024).**

**Addis Ababa, Ethiopia**


## Declaration

I, Hirut Geday, now declare that this research study titled "Assessment of Export Trends in Ethiopia" is my original work and has not been submitted for any other degree or qualification at this or any other institution. This study has duly acknowledged all information and data from other authors.

Failure to comply with this institution's ethical standards and academic integrity may result in disciplinary action.

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## CERTIFICATION

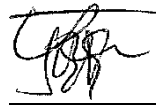
This postgraduate thesis entitled "**Assessment of Export Trends in Ethiopia:**" was submitted as part of the master's degree in international business. Strategic Investment is based on the university's regulations and standards of authenticity and reliability.

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## Abstract

The assessment of export trends in Ethiopia based on export diversification and economic growth is a different issue in the empirical literature. This paper, therefore, analyzed export trends in Ethiopia using time series data from 2011—2023 based on purposive samples. The National Bank of Ethiopia (NBE), the Ministry of Finance and Economic Development (MOFED), the Central Statistics Authority (CSA) of Ethiopia and International Monetary Fund (IMF), the United Nations Conference on Trade and Development (UNCTAD) were the data sources. The research used both descriptive, comprehensive analysis and time-series data analysis techniques. The trend analysis of export diversification and real GDP were separately and jointly analysed in the descriptive parts. Looking at the result from descriptive analysis in Ethiopia, The significant variables identified in the study were export diversification, GDP, investment, trade openness of the country, human capital, inflation rate, exchange rate, government spending, foreign direct investment and labour force growth. The findings reveal a complex relationship marked by initial improvements in export diversification, peaking in 2017, followed by a decline indicated by a decreasing export-to-GDP ratio and rising Herfindahl-Hirschman Index (HHI). However, the study stresses that increasing the number of exported products does not ensure enhanced economic performance. It identifies challenges such as political instability and structural constraints alongside opportunities in agriculture, high-tech investments, and regional trade agreements. To foster sustainable economic growth, the study recommends establishing a stable political environment, developing a diverse portfolio of value-added exports, investing in high-tech sectors, engaging in regional trade agreements, and enhancing the services sector. These recommendations hold significant promise for creating a diversified export economy in Ethiopia, instilling hope for a prosperous future.

**Keywords: Export diversification, Economic growth, FDI and GDP**

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## **Acronyms**

GDP .....	Gross domestic product
SMEs.....	Small and medium-sized enterprise
WB.....	World Bank
WDI.....	World Development Indicator
WD.....	World Demand
WTO.....	World Trade Organization
USD.....	United State Dollar
NBE.....	National Bank of Ethiopia

# CHAPTER ONE

## Introduction

This chapter addresses the study's background, problem statement, objectives, research hypothesis, significance, scope and limitations, and organisation.

### 1.1 Background

One of the primary goals of any society in the world is economic development and growth. Economics literature, greatly enriched by your invaluable contributions, strongly supports the idea that development necessitates economic growth to alleviate poverty and that greater access to global markets is a prerequisite for faster growth. As each country's most essential growth source, trade plays a pivotal role. The process of economic growth is a complex phenomenon influenced by different factors: Openness to international trade is one among others (Samuelson & Nordhaus, 2010). Exports are a critical source of growth for all countries. They contribute significantly to a nation's economic growth, play a crucial role in easing poverty in developing countries, and substantially boost the profitability and growth of exporting firms. (Ventura, J. (2005). It is generally recognised amongst economists that exports constitute a significant factor in the development and growth of economies. Developing countries' overall growth can be produced by expanding the amount of capital and labour in the economy and increasing exports (Mazen & Daoud, 2015).

Export diversification, a key strategy in international trade, significantly reduces the risks of unpredictable product price volatility and higher foreign exchange prices. Its impact on macroeconomic factors is substantial and underscores its importance in economic stability and growth (Noureen & Zafar, 2014).

Export diversification is the changing structure resulting from widening the range of a country's exports (Dennis & Shepherd, 2007). Diversification is achieved by increasingly changing the basket of exported commodities and improving the existing exports by adding value or enhancing them through technology and innovation. In a practical sense, it can take different forms and dimensions and be analysed at varying levels (Ali et al., 1991). Meanwhile, it is well known that diversification involves introducing new products into new markets and processing

internal business development through intensive changes in administration structures, systems, and other management processes (Dennis & Shepherd, 2007). A country must diversify its exports to minimise the risk of using surplus cash, build shareholder value, exploit better and additional opportunities, efficiently allocate capital, and build corporate brand equity (Alemu, 2008).

The Ethiopian economy depends mainly on husbandry, which is reckoned for 43 of GDP, according to data from the National Bank of Ethiopia (NBE) in 2013. During the same period, service and sedulity sectors accounted for 45% and 12 % of the country's GDP. The agricultural sector contributes 85 of import earnings and employs 83 of the labour force. According to World Development Pointers (WDI 2013) data, Ethiopia's GDP per capita, PPP (i.e., USD 1109), is among the lowest in Sub-Saharan Africa. Despite being a developing economy with the most minor per capita income, Ethiopia, in recent times, is one of the fastest-growing husbandries in Africa. In terms of periodic chance growth, the Ethiopian economy showed a time-on-year average growth rate of 10.4 from 2002 to 2013 fiscal times. The driving force for the robust and rapid-fire-fire growth has been mainly credited to bettered public investment in infrastructures, increased private sector investment, commercialisation of husbandry, and growth in non-traditional exports (Africa et al., 2013). Despite a decreasing trend in the agricultural sector's contribution to the national GDP over the past thirty years, the sector continues to significantly impact job creation and foreign exchange generation in the country. The stability of the import sector performance is critical for the profitable development of multitudinous developing countries like Ethiopia. In recent decades, import diversification has raised concern among these countries aimed at accelerating import earnings, reducing instability in import earnings, and perfecting growth.

Although Ethiopia follows an import-led growth strategy, it has yet to achieve satisfactory import profit generation and diversification performance. This is mainly because over three-fourths of the country's import profit is attained from numerous wares exports that are raw paraphernalia. The country's foreign trade performance trends show that exports have registered moderate growth, comprising about 10 per annum since 1982. The country earned an all-time high import profit of USD 3.3 billion in 2013. Ethiopia's senses also revealed an average growth rate of 12 per cent each time, reaching USD12.8 billion in 2013. This resulted in a trade insufficiency of USD 9.2 billion in the same period.

On the other hand, total exports of goods to GDP rate have bettered to 14.0 in 2012 from 7.6 in 1981. Despite the scarcity of trade balance, the bettered exports to GDP rate indicates the economy is gradually becoming open to international trade, which could positively impact the public economy and the import sector. Like other husbandry in Sub-Saharan Africa, the structure of Ethiopian exports shows that numerous primary agricultural products constitute the captain's share of its import handbasket. The country's coffee, nicknamed "green gold", is still the major import commodity, which generates one-third of the total foreign exchange earnings of the country. Other essential goods exports include oilseeds, Khat<sup>1</sup>, cut flowers, live brutes, beats, meat and meat products, fruit, and vegetables. These merchandise exports combined with coffee accounted for 75 per cent of the country's total import earnings. In distinction, the donation of manufacturing exports (analogous to leather and leather products and fabrics) to total exports is tiny. Although the share of traditional exports is declining due to the fast growth of non-traditional exports such as cut flowers, fruits, and vegetables, generally, there is a high dependence on numerous primary agricultural goods. Therefore, it is imperative for the least developing husbandry, like Ethiopia, to concentrate on structural and policy confines to bring about sustainable and balanced diversification and import growth.

One eventuality strategy to reduce this vulnerability and promote sustainable, profitable growth is through import diversification. Export diversification involves expanding the range and variety of goods and services a country exports, reducing reliance on numerous pivotal goods. Diversification can help spread trouble, increase rigidity to external shocks, and stimulate economic invention and productivity growth.

Several studies have explored the relationship between import diversification and profitable growth, with mixed results. Some studies have set up a positive relationship, suggesting that import diversification can lead to advanced situations of profitable growth. Other studies have established no significant or negative relationship, suggesting that diversification may only sometimes lead to profitable benefits. Given the significance of import diversification for profitable growth in Ethiopia, further disquisition is needed to examine the specific channels through which diversification may affect growth in the country. This study aims to fill this gap by probing the effect of import diversification on profitable growth in Ethiopia, using a combination of quantitative analysis and case studies.

This study can help policymakers design more effective strategies to promote sustainable and inclusive growth in Ethiopia by better understanding the relationship between import diversification and profitable growth.

## **1.2. Statement of the Problem**

Ethiopia is in the Horn of Africa and has over 100 million people. The country has been experiencing significant economic growth in recent years, with an average annual GDP growth rate of around 10% (World Bank, 2021). However, the country's economy relies heavily on agriculture, which accounts for over 80% of total employment and around 40% of GDP (Central Statistical Agency of Ethiopia, 2020). This heavy dependence on agriculture makes the economy vulnerable to external shocks, such as changes in commodity prices and climate-related disasters. Despite efforts to promote economic growth in Ethiopia, the country's economy relies heavily on a narrow range of primary commodities for export. This lack of export diversification raises concerns about the country's vulnerability to external shocks and its ability to sustain long-term economic growth. The overreliance on a few key export sectors limits the country's ability to generate foreign exchange and hinders the development of other potentially lucrative industries. Therefore, there is a need to assess export trends in Ethiopia to understand how a more diversified export base can contribute to sustainable economic development and resilience to external economic challenges (Barasa, 2022).

## **1.3. Research Questions**

Within the context of the above background discussed and the stated statement of the problem, the researcher identifies the following research questions to be answered at the end of the study. These are:

### **1.3.1. General question**

The study critically investigated the following research questions regarding the linkage between exports and growth in Ethiopia during the study period.

### **1.3.2 Specific question**

1. What are Ethiopia's export diversification trends and patterns over the past decade?
2. Is there a significant relationship between export diversification and economic growth in Ethiopia?
3. Which key sectors have contributed the most to export diversification, and how have they impacted economic growth in Ethiopia?
4. What are the challenges and opportunities for further diversifying Ethiopia's export base?
5. What policy recommendations can be proposed to promote export diversification as a strategy for sustainable economic growth in Ethiopia?

## **1.4. Objectives of the Study**

### **1.4.1. General Objective**

The general objective of the study is to assess export trends in Ethiopia.

### **1.4.2. Specific Objectives**

1. To analyze Ethiopia's export diversification trends and patterns over the past decade.
2. To examine the relationship between export diversification and economic growth in Ethiopia.
3. To identify the key sectors contributing to export diversification and their impact on economic growth.
4. To assess the challenges and opportunities for further diversifying Ethiopia's export base.
5. To provide policy recommendations for promoting export diversification as a strategy for sustainable economic growth in Ethiopia.

## **1.5. Scope of the Study**

The scope of the study on the assessment of export trends in Ethiopia was focused on assessing the status of export diversification in the country, including an analysis of the Composition of exports and trends in export diversification over time. The study's key findings on the relationship between export diversification and economic growth in Ethiopia, derived from quantitative data analysis techniques, are as follows: factors such as GDP growth, employment rates, and poverty levels were considered. The research also identified the key factors influencing export trends in Ethiopia, including government

policies, infrastructure, and market conditions. Recommendations were provided to policymakers and stakeholders in Ethiopia on how to promote export diversification and stimulate economic growth effectively. The study was based on primary and secondary data sources, focusing on Ethiopia's export sector and its implications for overall economic development.

## **1.6. Significance of the Study**

The study of export trends in Ethiopia holds significant implications for the country's economic development. By examining how expanding export products can contribute to sustainable growth, the research highlights the potential benefits of reducing reliance on a narrow range of commodities. This enlightening aspect of the research can inform the audience about the potential benefits of this economic strategy. Diversifying exports helps mitigate risks associated with price volatility and creates new avenues for income generation and job opportunities within the economy. Furthermore, the findings of this study offer valuable insights for policymakers in Ethiopia, informing them on the importance of export diversification as a strategic tool for driving economic growth. By understanding the factors influencing export trends, policymakers can design and implement effective policies to foster a resilient export sector. This, in turn, can lead to more balanced and sustainable economic growth, making the Ethiopian economy less vulnerable to external shocks and global market fluctuations. The study also highlights the potential for poverty reduction and inclusive economic growth by promoting exports, particularly benefiting small and medium-sized enterprises (SMEs) and rural communities. Overall, this research contributes to the existing literature on export trends, particularly in developing countries like Ethiopia. The insights gained from this study can provide a basis for future research in understanding the role of export trends in driving economic development and fostering sustainable growth in developing economies.

## **1.7. Limitation of the study**

The paper was assessed to export trends in Ethiopia. In doing so, the researcher faces some limitations that interims of reducing the efficiency of the paper, such as: - Difficulties in finding accurate and sufficient data, difficulties in getting some statistical programs for data analysis, and Some dummy variables, which, in turn, results in difficulty to interpret by this scope of study, Constraints of time and finance.

## **1.8 Organization of Research**

This study organizes in five chapters. The first chapter deals with the introduction, statement of the problems, objectives of the study, significance of the study and scope of the study. Chapter two reviews pertinent literature on the study from both theoretical and empirical issues reviewed in the literature and then attempt to link it to the study. Chapter three discusses the methodological issues of the study, while chapter Four discusses the analysis of the empirical results, and finally, chapter five summarises the main findings of the study and provides suggestions and policy recommendations.

## CHAPTER TWO

### Literature review

#### 2.1 Theoretical Literature

Many developing nations are characterised by low demand, which limits their growth prospects. Exports are a viable channel by which developing nations can boost their long-term growth. The problem is that many developing nations depend on a narrow export basket of mainly primary products, which exposes them to export revenue instability and volatile international prices. Exporting allows firms in developing countries to expand their markets and profit from economies of scale. Furthermore, through exports, a country may create foreign exchange earnings, increase productivity, and increase employment, promoting economic growth (Iizuka & Gebreyesus, 2017). Exports allow poor countries with narrow domestic markets to benefit from economies of scale. In addition, exports improve resource allocation efficiency and capital utilization due to competition in world markets (Herédia & Cabral, 2010). export diversification encourages rapid and continuous economic reforms (Choi & Hartigan, 2008).

Export diversification provides a viable option for developing nations to enhance their GDP growth and increase the range of their exports to international markets. It appeals to developing nations due to its prospects of achieving long-term growth. The IMF (2014) argues that export diversification makes developing nations resilient to shocks and allows them to achieve growth.

Import diversification is described as modifying the composition of a country's prevailing import goods or destination requests or expanding exportable products across multitudinous profitable sectors. Diversification intends to set up a broader array of exports with better overseas request eventuality that are not susceptible to related volatility in global request prices. Export diversification in various developing husbandry is perceived as the advancement from traditional to non-traditional import products integral to their "import-growth strategy" (Samen, 2010, p,15). In various trade literature, two different types of arguments on import diversification are set up. The traditional view argues that developing husbandry with a narrow export base has an advanced index of import earning instability compared to developed husbandry with a broader import base (Bamou, 2002). This orthodox view of import diversification is predicated on its

significance in reducing the variability of import earnings touched off by periodic volatility of commodity prices in global requests. The nexus of this argument lies in the idea of import product attention and the incapability to counterpoise the volatility in the top commodity exports by negating the variability and stability in the import of other goods (Lakew, 2003).

According to Wilson (1984), a country's foreign exchange position would constantly be serious if it depended on a single import product. Massel (1964) further demonstrated that the presence of concentrated and a wide range of exports is a significant cause of volatility in a country's import profit. He presented two African countries, Ghana and Sudan (Ghana known for cocoa and Sudan for cotton), as samples of "mono-crop countries" and claimed the eventuality for diversification to attain superior import earnings strength. Also, James (1983) contended the consequence of import commodity attention on import earnings volatility and noted the need for diversification in line with the development of artificial products. Samen (2010) argued that diversification increases benefits beyond the traditional view of import earnings stability. Diversification can meliorate value addition and enhance growth by having a more extensive import base. It can expand the capacity of technological handover through comprehensive, regular and practical training and 'knowledge by doing'; it also enables forward and backward liaison. He also accredited that diversification can produce advanced requests, husbandry of scale and externalities, and exchange of goods with progressive price trends for those with deteriorating price patterns. In distinction, the new argument for import diversification focuses on dynamic relative advantage. According to classical trade propositions founded by Adam Smith and David Ricardo, every economy has a "relative advantage" in manufacturing affairs, in having certain import products, and that "specialisation" in these import goods will produce "earnings from trade". The longstanding notion of relative advantage generally suggests that what is constitutionally essential is "how good an economy is at producing a commodity compared with another commodity." Samen (2010) noted that relative advantage is normal and equally inert for natural resources and agricultural goods. Still, it can be encouraged and vigorous for the manufacturing, scientific, and service sectors. Overall, it is also believed that specialization patterns noticeably differ from one economy to another. "The process of import diversification could appear contrary to the generality of relative advantage. Predicated on trade proposition arguments, the more a country laboriously engages in international relative requests, the more it bears for a country to specialise in exports. Although specialisation leads to a lower

degree of allocation effectiveness, at the same time, in narrow import-predicated husbandry, it may be accompanied by costs associated with specialization in terms of advanced instability or external shocks in import profit. This could cause severe shocks to the economies of rising countries. The more diversified a country's export earnings are, the better its ability to stabilise profitable performance and promote growth by adding foreign exchange sources. Still, this achievement might be at the expense of advantages associated with specialisation (Alietal., 1991).

## **2.2 Dimensions of Export Diversification**

According to colourful trade literature, import diversification has numerous confines and can be scanned in different situations, such as estate, factory, region, or country. At each position, emphasis could be given to colourful forms of diversification. Still, in the trade literature, two introductory types or confines of import diversification have been vastly mooted: vertical and perpendicular diversifications. “Vertical diversification occurs within an analogous sector (primary or secondary or tertiary sector). Furthermore, it involves differences in the blend of a country’s exports by adding new goods on prevailing base within the same sector, aimed at diving adverse profitable (to neutralise worldwide price volatility) and political pitfalls” (Samen, 2010).

On the other hand, perpendicular diversification involves a metamorphosis from the primary to the secondary or tertiary sector. It requires bringing further uses for prevailing products through enhancing value addition, like processing, marketing or other services. Significant benefits of perpendicular diversification include expansion of request openings for natural coffers or raw paraphernalia and ameliorating the growth and stability since value-added products generally have lower price swings than raw products. Illescas and Carlos (2011) defined traditional and non-traditional exports of Peru based on developments over time. He described traditional exports as those Peruvian products that have been produced and exported since longer literal ages, indicating its “relative advantage associated to the relative cornucopia of coffers”. On the other-traditional exports include those introduced more recently and” having relative advantage or rested on relative resource cornucopia. As stated by Samen in 2010, the conditions for successful diversification (either vertical or horizontal) can vary mainly depending on factors such as capital, technology, managerial skills, and marketing expertise. Robust and healthy

import growth entails both confines of vertical diversification (e.g. bringing up new goods in the current list of exports) and perpendicular (e.g. entering value addition of raw paraphernalia through processing and manufacturing). From the preexisting discussion, a narrow base of primary import goods for hard currency earnings has been a grueling issue faced by least-developed countries because of a temporal and changeable declining trend in the transnational price of these agrarian exportable products that, in turn, leads to unstable import earnings. Similar large volatility in import earnings has a significant adverse impact on frugality. To minimize the devilish dependence on primary goods for generating import earnings and entering world requests, the least advanced husbandry needs to diversify its import goods.

### **2.3 Empirical Literature**

Numerous empirical studies focus on the link between export diversification and economic growth. These studies generally use growth equations and regress either GDP per capita income or GDP growth against various measures of export diversification. They include control variables such as capital, labour, number of exports, trade openness, real exchange rate, and the rule of law. Export diversification integrates the domestic economy with regional and global economies, thereby expanding the dimension of competition to the international markets. Competitiveness in a market encourages resource allocation in less developed countries for their transformation from less productive primary goods of the farming sector to sophisticated productive of the manufacturing sector. Therefore, factor productivity is improved through export diversification (Getahun, 2014).

The empirical evidence shows mixed outcomes regarding the relationship between export diversification and export growth. Illescas (2011) noted that “a few studies have found that export concentration is associated with lower growth.” For instance, (Ali et al., 1991) analysed the export performance of three Sub-Saharan African countries, namely Malawi, Zimbabwe, and Tanzania, employing various measures of horizontal export diversification. The study found no clear relationship between the degree of export diversification and export performance for the three African economies. Hassan and Toda (2004) conducted a comprehensive study on the association between export diversification and export growth for three LDCs: Bangladesh, Nepal, and Myanmar. The researchers found mixed results for the captioned developing countries. For Bangladesh and Nepal, vertical diversification into non-traditional exports

significantly affects total export growth more than horizontal diversification into traditional exports. In contrast, in the case of Myanmar, the study found an absence of any association between export diversification and total export growth. According to the study, the momentum for export growth in Bangladesh and Nepal originated mainly from vertical diversification towards non-traditional products such as ready-made garments, footwear, miscellaneous manufactured products for Bangladesh, and carpets and clothing for Nepal.

Aigheyisi (2018) empirically examines factors driving export diversification in ECOWAS countries over the period span from 1995 to 2015. In particular, he assessed the effect of real GDP, gross capital formation, inflation, and financial institutions within the FMOLS estimator. The study found that increasing gross capital formation and real GDP increases export diversification (discourages export concentration). At the same time, an expansion in the financial institution adversely impacts export diversification, thus enhancing export concentration in ECOWAS countries.

Duru and Ehidiemhen (2018) utilised the ordinary Least Squares (OLS) analysis and ARDL bound tests methodologies, together with the Hershman index (HI) over the period 1980-2016, to examine the interrelationship between economic growth and export diversification in Nigeria. Their study uncovered that the GDP growth rate and exports (i.e., Goods and services) had positive but insignificant effects on Nigeria's economic growth.

Lee and Zhang (2021) empirically analyse the impact of volatility and economic growth on diversifying exports to low-income and minor-income groups using data from 2001 to 2015. Their study used a GMM estimator method, and its results show that export diversification (i.e., products and industries) enhances economic growth while reducing economic volatility. They further argued that the benefits of export diversification vary by the nation's size and income level, whereas diversification in markets plays a significant part in economic growth and stability.

Robinson et al. (2017) state that export diversification can be divided horizontally and vertically. The former refers to the diversity of products across different industry categories, while the latter covers the diversity of products within the same industry. Both diversification types are projected to positively affect economic growth (Robinson et al., 2017).

In sum, the above empirical literature provided mixed results on the impact of export diversification on total export growth. Moreover, the preceding studies highlighted the

possibility of different outcomes when different dimensions of diversification were used for export growth.

## **2.4 Key Policies to Promote Export Diversification**

According to the UNCTAD 2011 report, policies to promote export diversification should be selected based on a thorough analysis of the country's specific situations. Some of these factors include its role in the global division of labour, its position within the international supply chain, and the demand for its products on a global scale. Generally, achieving export diversification through policy reforms requires a comprehensive strategy encompassing trade, investment, industrial policies, and institutional reforms. The following section will delve into specific measures aimed at promoting export diversification.

### **2.4.1 Investment and Industrial Policy**

These national policies would help cultivate innovative sectors with comparative advantage. Under this framework, countries should identify and set up environments that enable domestic companies to access overseas markets. Enhancing market access usually involves lessening trade barriers for exporting companies and establishing firms engaged in marketing and distribution to local manufacturers with the essential knowledge to increase access to global markets. Besides, regulatory and institutional frameworks, improved infrastructure and ICT, and investment in infrastructure would enhance productivity and export diversification and enable local firms to compete in international markets.

**Access to Finance for Export Diversification:** A well-thought-out export diversification strategy must avail financing services for export-based companies with important priority. Because a lack of adequate trade finance is a significant barrier for potential exporters, especially small and medium enterprises (SMEs) that may not have access to financing or may be subject to high interest rates when seeking credit, for example, the government could convince privately owned commercial banks to provide export financing at fair interest rates. An advanced financial industry Creates more excellent funding opportunities for innovative entrepreneurs with the potential to introduce new export products.

**Development of Infrastructure:** Well-organized infrastructure is a prerequisite for better export performance. Ensuring that goods arrive promptly, in optimal condition, and with minimal waiting and delivery times, efficient transport infrastructure, and port facilities are vital elements of a successful export diversification strategy. Inadequate infrastructure can discourage export companies by impeding manufacturing processes and disrupting the transportation and shipment of exported goods. As a result, this would lead to increased trading expenses and decreased competitiveness of the export industry in the global marketplace.

**Communication and technological infrastructure** are critical drivers for the growth of a diversified and globally competitive export sector. Building a suitable and reachable communication infrastructure expands productivity, helps to have fast and effective communication with the global trading community, and is vital for the realisation of successful export companies.

#### **2.4.2 Institutional and Regulatory Framework**

This environment in a country could either stimulate or deter export diversification efforts. Very complex or burdensome procedures, rules, and regulations governing exports may threaten determinations to diversify exports. Moreover, studies on trade support services in Africa showed that inadequate trade policy policies and structures obstruct the development of the export sector. Therefore, accessible and coordinated export guidelines are essential to stimulate export diversification (Bonaglia & Fukasaku, 2003).

#### **2.4.3 Investing in Human Capital Development**

Many empirical types of research have shown the correlation between a diversified export portfolio and a well-educated labor force. Further studies also attested that the need for a skilled workforce is a major impeding factor in the capacity of a country to diversify its exports.

‘Appropriate policies on technology acquisition, adoption, adaptation, development, and diffusion should be crafted to diversify exports and increase the export sector's productivity. As a result, employee productivity and production efficiency could improve, enabling export firms to obtain a competitive edge and thrive in the international market. Furthermore, financial support from the private and public sectors could aid skill development training initiatives.

Transnational companies (TNCs) are progressively subcontracting portions of their value chains to intensify efficiency and competitiveness and offer options with the lowest international price. This integration often involves outsourcing industrial or service sectors to be efficient and low-cost in developing economies.

Engaging in worldwide value chains requires the capability to produce specialised goods or services of the required quality and quantity within demanding delivery schedules. These burdens have made it problematic for many developing economies to assimilate into international value chains and to engage downstream sectors as suppliers of raw materials.

#### **2.4.5 Designing Incentive Systems**

Incentive systems could enhance “flows of FDI into the manufacturing sector or the production of new primary export products” or boost the quality of prevailing exports. In this scenario, Official Development Assistance (ODA) is vital for promoting export diversification by investing in capacity and infrastructure development within export sectors of developing economies. “Aid agencies could help develop more efficient trade and investment support networks by sharing their expertise and allowing access to trade data and regulations.”

#### **2.4.6 Trade Facilitation**

Trade facilitation is vital for promoting exports and decreasing transaction costs involved in import-export trade. According to the WTO definition, trade facilitation means “simplification and harmonisation of international trade procedures, where trade procedures are the activities, practices and formalities involved in collecting, presenting, communicating and the processing of data necessary for the movement of goods in international trade can hinder by unnecessary procedures, which increase transaction costs for traders. A study conducted by the OECD revealed that “each one per cent of savings in trade-related transaction costs yields a worldwide benefit of USD 43 billion (OECD, 2003).”

### **2.5. Theoretical Framework**

The theoretical Framework for the study on the effect of export diversification on economic growth in Ethiopia is grounded in several critical economic theories and concepts.

1. **Export-Led Growth Theory:** Export-led growth theory suggests that expanding a country's export base and diversifying its export destinations can lead to higher economic growth. By increasing the range and variety of goods and services exported, a country can tap into new markets, increase its competitiveness, and stimulate economic productivity growth. This theory underpins the hypothesis that export diversification can positively impact economic growth in Ethiopia.

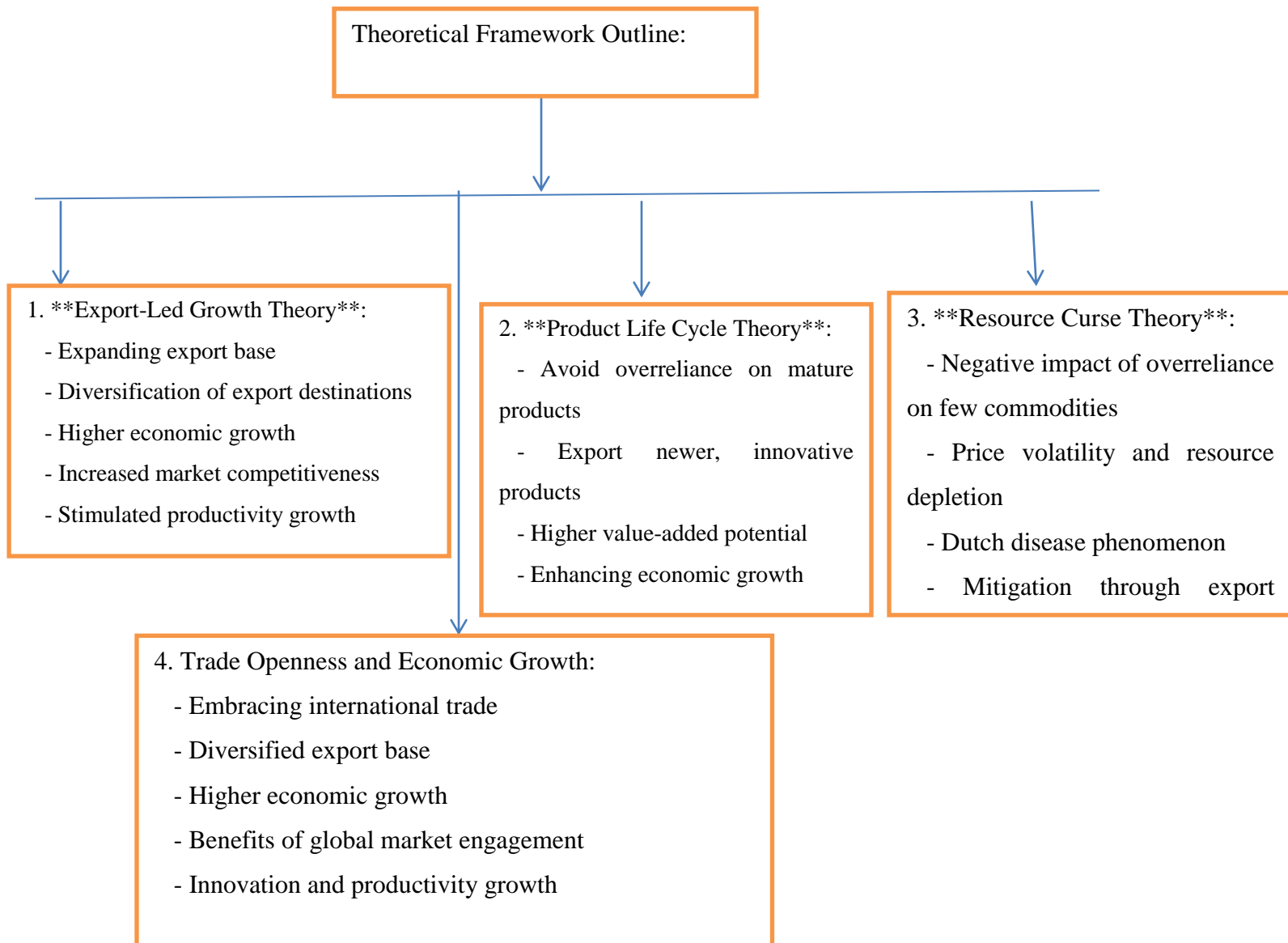
2. **Product Life Cycle Theory:** Product life cycle theory posits that as products move through their life cycles, they may become standard commodities with lower profit margins. Export diversification can help a country avoid overreliance on products in the mature stage of their life cycles and promote the export of newer, more innovative products with higher value-added potential. This theory suggests that export diversification can enhance economic growth by fostering the export of products in their growth and early maturity stages.

3. **Resource Curse Theory:** Resource curse theory highlights the negative impact of overreliance on a few essential commodities, particularly natural resources, on economic growth. Countries heavily dependent on a narrow range of commodities are vulnerable to price volatility, resource depletion, and Dutch disease. In this phenomenon, a booming resource sector leads to a decline in other economic sectors. Export diversification can help mitigate the effects of the resource curse and promote more balanced and sustainable economic growth in Ethiopia.

4. **Trade Openness and Economic Growth:** The theory of trade openness suggests that countries that embrace international trade and diversify their export base tend to experience higher levels of economic growth. By engaging with global markets and diversifying their export destinations, countries can benefit from economies of scale, access new technology and knowledge, and spur innovation and productivity growth. This theory underscores the importance of export diversification for driving economic growth in Ethiopia.

Drawing on these theoretical frameworks, the study assesses the relationship between export trends, export diversification, and economic growth in Ethiopia. It offers insights into how diversification can impact growth and inform policy recommendations for promoting sustainable and inclusive economic development in the country.

**Figure 1: Theoretical Frame Workout Line**



## **Chapter Three**

### **Research Methodology**

This chapter describes in detail the research methodology followed in the study. It presents the step-by-step processes through which this study was carried out. In particular, It discusses research design and type, the technique used to determine the population and sample size, the type and source of data, data collection techniques, method of data analysis technique and presentation.

#### **3.1. Research Approach**

Research approach are mechanisms of attaining research objectives. Research approaches are also adapted based on the feasibility of the selected approaches, the common research approaches are quantitative, qualitative, and mixed research approaches, the researcher used quantitative approach in which its techniques have descriptive statistics like percentage (%), ratio and tables that show the results of the analysis and facilitate the interpretation of data.

#### **3.2. Research Design**

This research design integrated the different parts of the study in a logical and meaningful way of presentation. It outlined the collection analysis of data to address the research equation effectively. The research used both a combination of both descriptive and exploratory research method. The descriptive methods of data collection help the research to describe and interpret about the trends of export in Ethiopia.

#### **3.3. Data Type and Sources**

The study used both primary and secondary data types collected from key stakeholders in the Ethiopian export sector. In addition to primary data, secondary data was gathered from reputable sources such as the Ethiopian Ministry of Trade and Industry, the World Bank, the International

Monetary Fund, and other international organizations. These sources provided historical data from 2011 to 2023 on Ethiopia's export performance, economic indicators, and relevant contextual information necessary for the analysis, the rationale for choosing the lower limit of time frame of the data is due to the availability of structured data as of the specific year. Given the quantitative nature of the study, different documents, reports and other supportive materials were used to give a clear picture of study.

### **3.4. Method of Data Collection**

This study is mainly based on a combination of primary and secondary sources. Primary data was gathered through interviews with key stakeholders in the Ethiopian export sector, and on secondary yearly export data was collected from various sources, including the Ethiopian Ministry of Trade and Industry, the World Bank, and the International Monetary Fund covering the period from 2011 to 2023. These sources provided quantitative data on export trends, economic indicators, and factors influencing economic growth in Ethiopia. Additionally, literature reviews of existing studies on export trends in Ethiopia were conducted to supplement the collected data.

The combination of primary and secondary data sources allowed for a comprehensive analysis of the effect of export diversification on economic growth in Ethiopia. The data provided a well-rounded understanding of the factors at play and informed the recommendations for policymakers and stakeholders in the country.

### **3.5. Sampling techniques and population**

#### **3.5.1 Target population**

The study on Ethiopia's export trends will target policymakers, government officials, economists, academics, and stakeholders in the country's export sector.

#### **3.5.2. Sampling techniques**

The research employed a combination of quantitative data analysis techniques to assess export trends in Ethiopia. Furthermore, it involved time-series analysis to analyse trends in export

diversification over time. This technique allowed for the examination of patterns and changes in the composition of exports in Ethiopia, providing valuable insights into the dynamics of export trends and their impact on export diversification and economic growth.

### 3.5.3. Sample size

The sample size for this study on export trends in Ethiopia was determined based on several factors. Firstly, considering the complexity and scope of the research objectives, a large and representative sample size was required to ensure the reliability and generalizability of the findings. Additionally, the diverse nature of the export sector in Ethiopia and the need to capture a variety of perspectives and trends in export diversification necessitated a sizeable sample size. Therefore, a sample size of at least 200 participants, including government officials, industry experts, exporters, and other key stakeholders, was targeted for data collection. This sample size allowed for a comprehensive analysis of the relationship between export diversification and economic growth in Ethiopia, as well as facilitated the identification of factors influencing export diversification and the formulation of policy recommendations for promoting sustainable economic development in the country.

To calculate the sample size for the study on export trends in Ethiopia, this study used the formula for sample size determination when the population size was known. The formula for calculating sample size was:

$$n = \frac{Z^2 * p * (1-p)}{E^2}$$

Where:

- (n) = sample size
- (Z) = Z-score (critical value from the standard normal distribution corresponding to the desired confidence level)
- (p) = estimated proportion of the population that has a particular characteristic
- (E) = margin of Error (desired level of precision)

Let us assume the following:

- Population size of Ethiopia, (N) = 110 million (hypothetical number)
- Desired confidence level = 95%

- Margin of Error, (E) = 5%

- Estimated proportion of the population with the characteristic of interest,  $(p) = 0.5$  (assuming maximum variability for maximum sample size)

Assuming a Z-score of 1.96 for a 95% confidence level, we can calculate the sample size:

$$n = \frac{(1.96)^2 * 0.5 * (1-0.5)}{(0.05)^2}$$

$$n = \frac{3.8416 * 0.25}{0.0025}$$

$$n = \frac{0.9604}{0.0025}$$

$$n = 416$$

Therefore, based on the assumptions provided, this study needs a sample size of approximately 400 participants. Factors such as potential non-response rates, sampling methods, and design effects must be considered when determining the final sample size. Overall, the sample size and sampling technique for this study aim to ensure a representative and diverse sample of respondents from the export sector in Ethiopia, allowing for a comprehensive analysis of export trends in the country.

#### **3.5.4. Reliability testing**

In this study, the reliability of the research is assessed through a test-retest reliability analysis. Test-retest Reliability involves administering the same questionnaire or data collection instrument to the same group of participants at two different time points to assess the consistency of the results over time (Bland & Altman, 1996) and determine whether the study findings are stable and reproducible.

Furthermore, this study considers inter-rater Reliability, especially if multiple researchers were involved in data collection or analysis. Inter-rater reliability assesses the consistency of ratings or judgments made by researchers working on the same project (Cicchetti & Sparrow, 1981). By ensuring inter-rater solid Reliability, the researchers can enhance the credibility of their findings and minimise potential biases in data interpretation.

Additionally, this study tests internal consistency reliability using techniques such as Cronbach's alpha for questionnaire data. Internal consistency reliability measures the extent to which all items in a questionnaire or survey instrument assess the same underlying construct (Nunnally, 1978). Demonstrating high internal consistency reliability can strengthen the validity of their study and ensure that their findings are robust and trustworthy.

Moreover, this study conducts a split-half reliability analysis to assess the consistency of results obtained from dividing the data set into two halves and comparing the results (Thorndike, 1949). Split-half reliability is a valuable technique for evaluating the internal coherence of a measurement instrument and can help identify potential inconsistencies or errors in data collection and analysis methods. By implementing a split-half reliability test, the researchers can enhance the overall reliability of their study and improve the quality of their findings. In conclusion, this study employs test-retesting to ensure the reliability of its research on assessing export trends in Ethiopia.

### **3.6. Method of data analysis and interpretation**

Githinji Angela (2014) described data analysis as editing and reducing amassed data to a convenient size, developing summaries, looking for patterns, and using statistical methods. The researcher edited data daily to ensure completeness and logical consistency of responses. Identified mistakes and data gaps were corrected as soon as possible. Once the data was edited, it was analysed using quantitative techniques. Then, the researcher produced descriptive statistics.

### **3.7. Model Formulation**

This research study assesses the relationship between export trends in export diversification and economic growth in Ethiopia. Export diversification refers to expanding a country's variety of exported goods and services to reduce its dependence on a few essential products or markets. Economic growth is measured by changes in a country's Gross Domestic Product (GDP) over time.

The research used panel data from the World Bank and the International Monetary Fund, covering the period from 2011 to 2023. The key independent variable is export diversification, which will be measured using the Herfindahl-Hirschman Index (HHI) to calculate the degree of concentration in Ethiopia's export products. The dependent variable is economic growth, measured as the annual percentage change in GDP. The analysis also includes control variables such as inflation rate, exchange rate, government spending, and foreign direct investment.

### **3.8 Validity of the study**

The study's validity in assessing export trends in Ethiopia's challenges, opportunities, and prospects, which utilized a sample size of 416, can be evaluated based on several critical factors. According to Johnson and Christensen (2020), sample size is a crucial consideration in research design as it can impact on the reliability and generalizability of study findings. Using a sample size of 416, the researchers may have ensured a sufficient representation of the population, thereby enhancing the validity of their conclusions.

Furthermore, the adequacy of the sample size in this study may have allowed for a more comprehensive analysis of export trends in Ethiopia. According to Hair et al. (2018), a larger sample size provides greater statistical power, which can aid in detecting meaningful relationships and patterns in the data. By employing a sample size of 416, the researchers may have increased the likelihood of detecting significant effects of export trends, thereby enhancing the validity of their study results.

Moreover, using a sample size of 416 in the study also facilitated the generalizability of the findings to the broader population of Ethiopia. Field (2018) noted that larger sample sizes can improve the external validity of research findings, allowing for more confident inferences about a population based on the study sample. Thus, by including a sample size of 416 in their study, the researchers may have increased the applicability of their findings to the overall context of economic growth in Ethiopia, thereby enhancing the study's validity. The adequate sample size contributed to the Reliability, statistical power, and generalizability of the study findings, thereby enhancing the validity and robustness of the research outcomes.

### **3.9. Ethical consideration**

Ethical considerations are paramount in researching the export trends in Ethiopia. Firstly, ensuring that all data collected and analysed in the study is ethical and responsible is essential, and respecting the confidentiality and privacy of individuals and organisations providing the data is vital. Ensuring the research findings are represented and interpreted is crucial, and avoiding bias or misleading conclusions is critical. Transparency in the research process, including the methods used for data collection and analysis, should be maintained to uphold the integrity of the study. Furthermore, any potential conflicts of interest or biases among the researchers should be

disclosed and mitigated to ensure the study's objectivity and credibility. Lastly, research findings should be disseminated ethically, and proper attribution should be provided to sources and credit any individuals or organisations that have contributed to the research. By adhering to these ethical considerations, the study on export trends in Ethiopia can be conducted responsibly and trustworthy.

## **Chapter four**

### **Result and discussion**

#### **Introduction**

This chapter presents the data comprehensively, accompanied by thorough analysis and interpretations framed within the defined econometric model. The data presentation employs various methods, including tabulation, graphical representations, and detailed descriptions. Each method facilitates clear inferential conclusions, which are derived precisely to support the overall analysis.

The descriptive analysis extensively examines export diversification by scrutinising its averages and trends. This analysis is contextualised within the broader scope of different economic growth indicators, allowing for a nuanced understanding of how export diversification impacts economic performance.

A crucial component of this chapter is econometric analysis, which involves implementing rigorous statistical tests. These tests are conducted to elucidate the true nature of the relationship between export diversification and economic growth in Ethiopia's export trends. Through these econometric techniques, the study aims to provide sound empirical evidence to clarify the dynamics at play, thereby offering insights into how export diversification may contribute to achieving sustainable economic growth in the country.

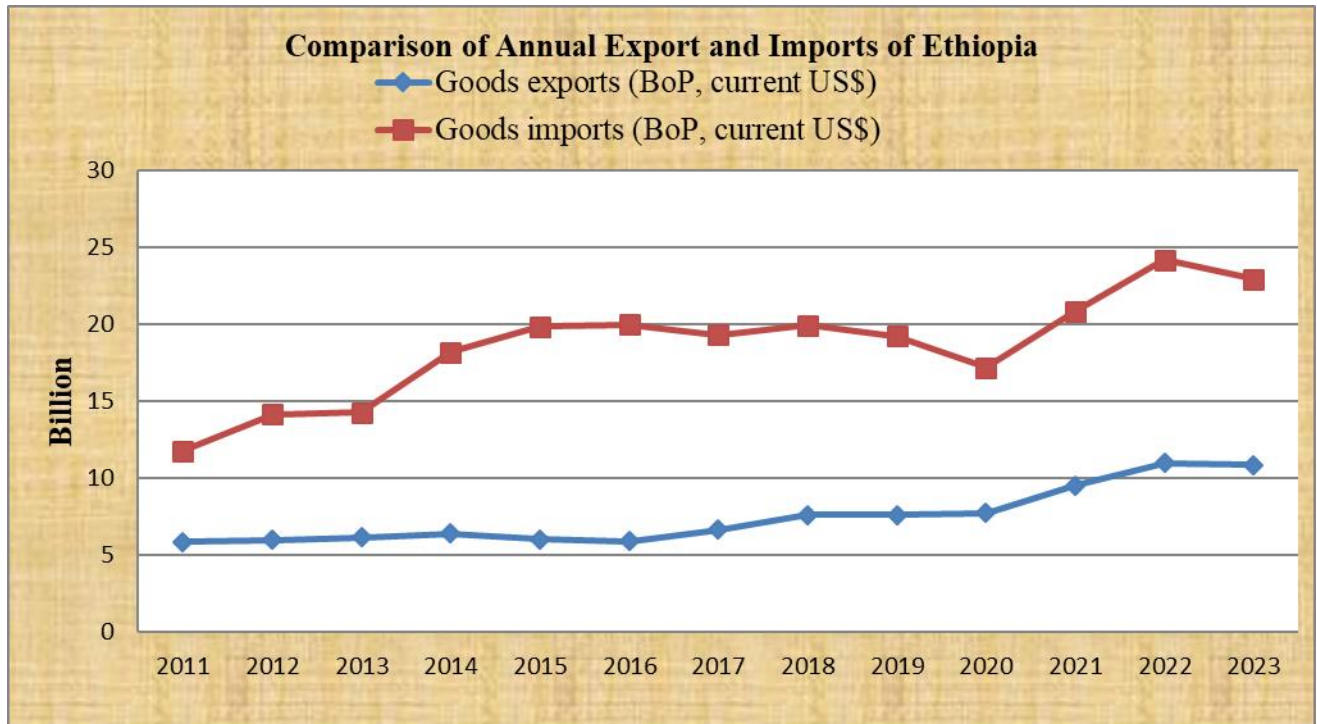
Overall, the combination of descriptive and inferential analyses, supported by robust econometric testing, enables a holistic understanding of the complex interplay between export diversification and economic growth within export trends in Ethiopia, crediting the findings presented throughout the chapter.

#### **4.1. Ethiopia's export diversification trends and patterns over the past decade (2011 – 2023)**

Ethiopia's export and import trends over the past decade, as indicated in Figure 1 by the provided data below, reveal significant insights into the nation's economic dynamics, particularly regarding export diversification. From 2011 to 2023, Ethiopia's goods exports have shown a general upward trend, increasing from approximately \$5.83 billion in 2011 to a peak of \$10.97 billion in 2022, followed by a slight decrease to \$10.87 billion in 2023. This growth trajectory in exports suggests a degree of diversification. Ethiopia has expanded beyond traditional agricultural exports, such as coffee, to include various manufactured goods and other agricultural products.

On the other hand, Ethiopia's imports exhibit a more volatile pattern, starting at \$11.75 billion in 2011 and reaching a high of \$24.19 billion in 2022 before slightly declining to \$22.95 billion in 2023. The consistent increase in imports, particularly in the last few years, may indicate rising demand for goods essential for development, including machinery, fuel, and raw materials necessary for industry and infrastructure projects. The disparity between export and import values highlights a substantial trade imbalance, with imports significantly surpassing exports in most years. This trend underscores the challenges Ethiopia faces in maintaining a sustainable trade balance. While diversification efforts yield some positive results, the consistent rise in import values suggests that the economy relies heavily on foreign goods, which may hinder the potential benefits of exports. The ensuing chart illustrates the annual export and import values of the country:

Figure 2: Comparison of annual exports and imports of Ethiopia (BoP current US\$)



Source: World Bank, World Development Indicators (WDI) 2023

In summary, Figure 1 shows that Ethiopia’s export diversification trends over the past decade indicate a gradual effort to broaden the range of exported goods while confronting the substantial challenge of balancing import needs. The data suggests that while Ethiopia is making strides in increasing its export volume, the persistent trade deficit illustrates the critical need for continued focus on enhancing domestic production capacities and competitive advantage in the global market.

The Table below shows a cross-country comparison of the average annual ratio of Exports to GDP for six East African economies,

Table 1: Exports of goods and services (% of GDP), East African countries

Country	2011 - 2013	2014 – 2016	2017 -2019	2020 - 2022	2023
Kenya	19.74	14.95042772	12.23554398	10.87152705	11.8
Ethiopia	14.3	9.605671337	7.980673699	7.652967529	6.6
Burundi	9.2	7.165938983	5.628089547	4.84987	5.3
Tanzania	21.01	17.17469863	15.47968969	14.34129872	17.8
Rwanda	12.72	14.17396072	21.15681302	20.45756225	25.4

Sudan	39.53	25.03333333	n.d	n.d	n.d
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Source: Own Computations, World Bank, WDI 2023 (n.d= no data available)

The data on the ratio of exports to GDP for East African economies from 2011 to 2023 reveals critical insights into Ethiopia's export diversification trends and patterns over the past decade. During this period, Ethiopia's average export ratio has steadily declined, from 14.3% in 2011-2013 to just 6.6% in 2023. This significant downward trend raises concerns regarding the nation's capacity for generating foreign exchange through exports, which is crucial for its economic stability and growth.

Initially, Ethiopia displayed a relatively competitive export-to-GDP ratio compared to its regional counterparts. However, following 2014, the export ratio markedly declined, hitting 9.61% from 2014-2016 and further dipping to 7.98% from 2017-2019. This consistent drop culminated in 2023 with the ratio at 6.6%, highlighting a challenge in maintaining export levels amid increasing domestic economic pressures and signalling potential inefficiencies in diversifying its export base.

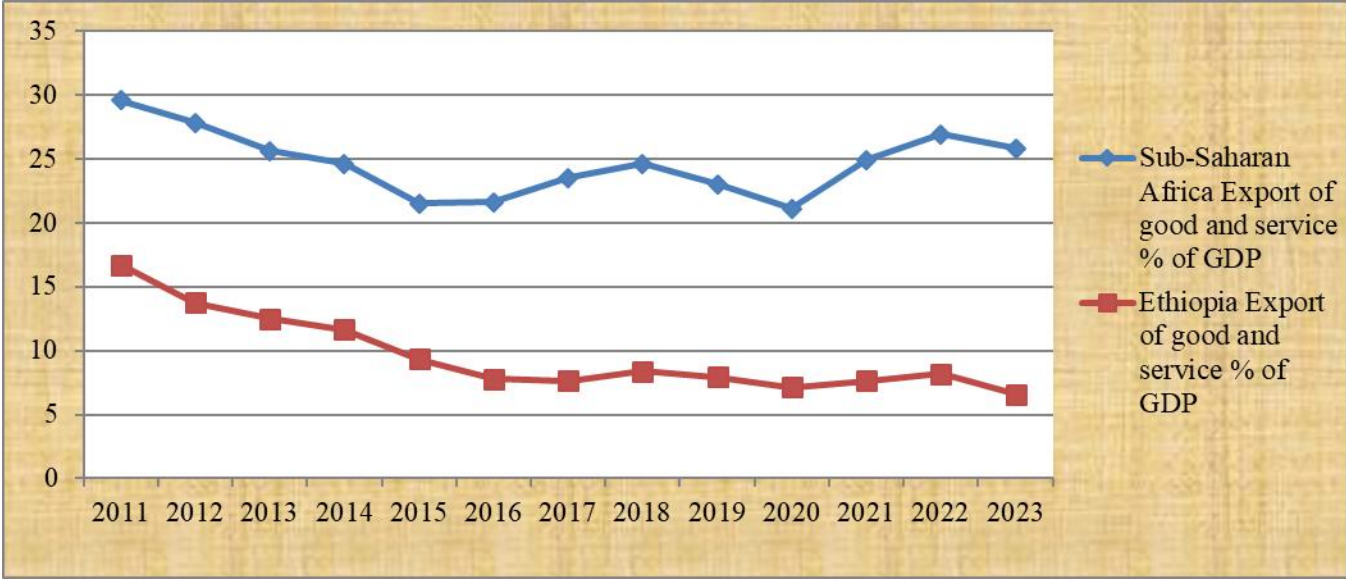
Compared with other East African nations, Ethiopia's exports as a percentage of GDP fall notably short. For instance, while countries like Kenya and Tanzania maintained higher ratios (approximately 11.8% and 17.8%, respectively, in the latest data), Rwanda exhibited a remarkable increase to 25.4% in 2023, accentuating its successful diversification strategy and ability to penetrate foreign markets more effectively.

This situation implies that Ethiopia's efforts in export diversification over the past decade have not yielded the desired outcomes, as the country struggles to keep pace with its neighbours in leveraging trade as a pillar of economic growth. The decline in Ethiopia's export-to-GDP ratio may indicate several issues, ranging from structural economic challenges and dependence on a narrow range of export products to potential global market fluctuations that have impacted commodity prices, particularly in agriculture, where Ethiopia has traditionally been strong.

To revitalise and improve its export performance, Ethiopia may need to implement focused strategies to diversify the types of goods and services offered on international markets. This could include enhancing the value-added production capabilities within critical sectors, improving trade logistics, and fostering policies encouraging investment in export-oriented industries. Addressing these gaps is fundamental for Ethiopia to enhance its trade competitiveness and boost its integration into the global economy.

A further analysis is also made to show the trend of Ethiopia’s aggregate export-to-GDP ratio from 1982 to 2013. Besides, an attempt has been made to compare Ethiopia's export/GDP ratio with that of other Sub-Saharan African countries. The following chart depicts the same trends:

Figure 3: Annual Export of goods and services % of GDP



Source: World Bank, World Development Indicators (WDI), 2023

The comparison of the export-to-GDP ratios between Ethiopia and Sub-Saharan Africa from 2011 to 2023 in Figure 2 illustrates significant trends and patterns in Ethiopia's export trends, revealing both challenges and opportunities. Throughout the twelve years analyzed, Ethiopia

consistently recorded a lower export-to-GDP ratio than the regional average for Sub-Saharan Africa. Starting at approximately 16.69% in 2011, Ethiopia's ratio declined sharply over the subsequent years, reaching a low of 6.6% by 2023. This trend indicates a significant diminishing of Ethiopia's export capacity relative to its economic output, raising concerns about its reliance on domestic production and its competitiveness in international markets.

In contrast, Sub-Saharan Africa's overall export performance showed relative stability and resilience, with the region averaging around 25-30% of GDP from 2011 to 2023. This regional data highlights the potential for export-driven growth in the area, suggesting that other countries successfully leverage their resources and industries for export purposes. However, Ethiopia's declining export ratio signals fundamental issues, including possible overreliance on a limited range of export products—predominantly agricultural commodities.

Ethiopia's peak export ratio was seen in 2011, following a downward trend through 2016, when it fell below 8%. The slight recovery in 2022 to 8.2% was marginal and overshadowed by the broader trend of decline. Throughout the years, Ethiopia has struggled to diversify its export portfolio, with coffee and other primary agricultural products remaining dominant. The failure to effectively transition toward more varied and higher-value exports has hindered the country's economic progress and integration into global markets.

Additionally, the fluctuation and eventual decline in Ethiopia's export performance can be attributed to several factors, including external economic shocks, lack of infrastructure, and institutional challenges that inhibit the growth of export-oriented sectors. The stark contrast with Sub-Saharan Africa's performance underscores the urgent need for Ethiopia to adopt a multi-faceted approach toward export diversification, focusing on enhancing product quality, increasing value addition, and exploring new markets.

In conclusion, Ethiopia's export diversification trends over the past decade reflect a concerning decline in its export-to-GDP ratio, revealing the urgent need for policies that promote a broader base of competitive exports. By addressing structural economic challenges and investing in

sectors with export potential, Ethiopia could improve its economic resilience and better align with the more robust performance of its Sub-Saharan African peers.

The table below illustrates five East African countries' average annual aggregate export growth rate in the last three decades.

Table 2 : Export of goods and service % growth rate, East African countries

Country	2011 - 2013	2014 – 2016	2017 - 2019	2020 - 2022	2023
Kenya	3.388942929	-2.301444704	0.865571584	3.679492916	-6.8
Ethiopia	-3.362084607	-5.512649646	2.431639359	8.184274175	-0.8
Burundi	5.685026411	-3.244391969	14.22585104	-1.902121501	7.8
Tanzania	7.157326008	3.284351104	4.416545218	2.266061055	17.4
Rwanda	17.19552288	8.809078439	24.47922629	7.697288453	25.8

Source: Own Computations, World Bank, WDI 2023

The analysis of the average growth rates of exports of goods and services for Ethiopia and its East African counterparts from 2011 to 2023 highlights significant trends and patterns concerning Ethiopia's export diversification efforts. Over the past decade, Ethiopia's export growth has exhibited a volatile trajectory, reflected in the negative growth rates recorded during 2011-2013 and 2014-2016, at -3.36% and -5.51%, respectively. These negative figures signal the struggles the Ethiopian economy faced in generating growth in its export sector during these years, which were likely influenced by economic instability and challenges in commodity price fluctuations.

However, a notable rebound occurred between 2017 and 2019, when Ethiopia's export growth rate reached 2.43%, indicating a potential recovery and a move toward diversification in its export activities. This significant recovery suggests that Ethiopia may have begun to explore new markets or products, even amid the longer-term downward pressure on its overall export performance. The growth rate further accelerated to 8.18% between 2020 and 2022, suggesting that Ethiopia was witnessing some success in increasing its exports, possibly due to expanding production capacities or improved market access.

Despite this positive trend, the growth rate fell sharply to -0.8% in 2023, highlighting the vulnerabilities and instability inherent in Ethiopia's export sector. In contrast, other East African countries, such as Rwanda and Tanzania, have demonstrated more robust growth patterns. Rwanda achieved export growth rates of 25.8% in 2023, indicating successful diversification and expanding global engagement.

Over the past decade, Ethiopia's inconsistent export growth underscores the critical need for strategies to enhance export diversification. The reliance on traditional exports like coffee and agricultural commodities has limited resilience against global market shocks and price volatility. To foster sustainable growth in its export sector, Ethiopia will need to invest in diversifying its export base, focusing on higher-value products and improving competitiveness through innovation, infrastructure development, and access to new international markets.

In summary, Table 2 shows that Ethiopia's export diversification trends reflect a complex interplay of challenges and partial recoveries over the past decade, indicating both the potential for growth and the need for concerted efforts to address structural issues and enhance its participation in global trade dynamics.

The ensuing below chart depicts the year-on-year growth rate of aggregate exports of Ethiopia and other Sub-Sahara African economies for the periods covering 2011-2023:

Figure 4 : Annual % growth of export of goods and service



Source: World Bank, World Development Indicators (WDI), 2023

The comparison of annual percentage growth rates in exports of goods and services for Ethiopia versus Sub-Saharan Africa from 2011 to 2023 reveals critical insights into Ethiopia's export diversification trends and patterns over the past decade. Ethiopia's export growth trajectory has been marked by significant volatility, with several years of negative growth interspersed with recovery periods. Ethiopia experienced a sharp decline in exports in 2011, with an annual growth rate of approximately -10.36%, reflecting the challenges it faced in boosting its export performance at the onset of the decade. The following years showed a mix of modest recovery and setbacks, with growth rates fluctuating wildly, including a notable dip to -11.22% in 2014 and -8.14% in 2015.

From 2016 onward, there were signs of improvement, particularly in 2017, when Ethiopia's export growth reached 7.67% and again in 2018 with 5.41%—this period of growth contrasted sharply with the broader regional context, where Sub-Saharan Africa also faced challenges but recorded a somewhat steadier performance. Notably, in 2020, Ethiopia's export growth soared to 18.95%, indicating a significant rebound; this peak may be attributable to strategic measures that Ethiopia could have employed, such as tapping into new markets or enhancing production capabilities. However, this was followed by a decline in 2021 and a slight contraction of -0.8% in 2023.

In comparison, Sub-Saharan Africa showed greater resilience, with overall growth rates generally less volatile and more stable, as indicated by its ability to maintain growth for numerous years despite economic disruptions. For instance, while Ethiopia's exports fluctuated drastically, Sub-Saharan Africa averaged a slight decline in growth rates during difficult economic periods, revealing a more sustainable export environment.

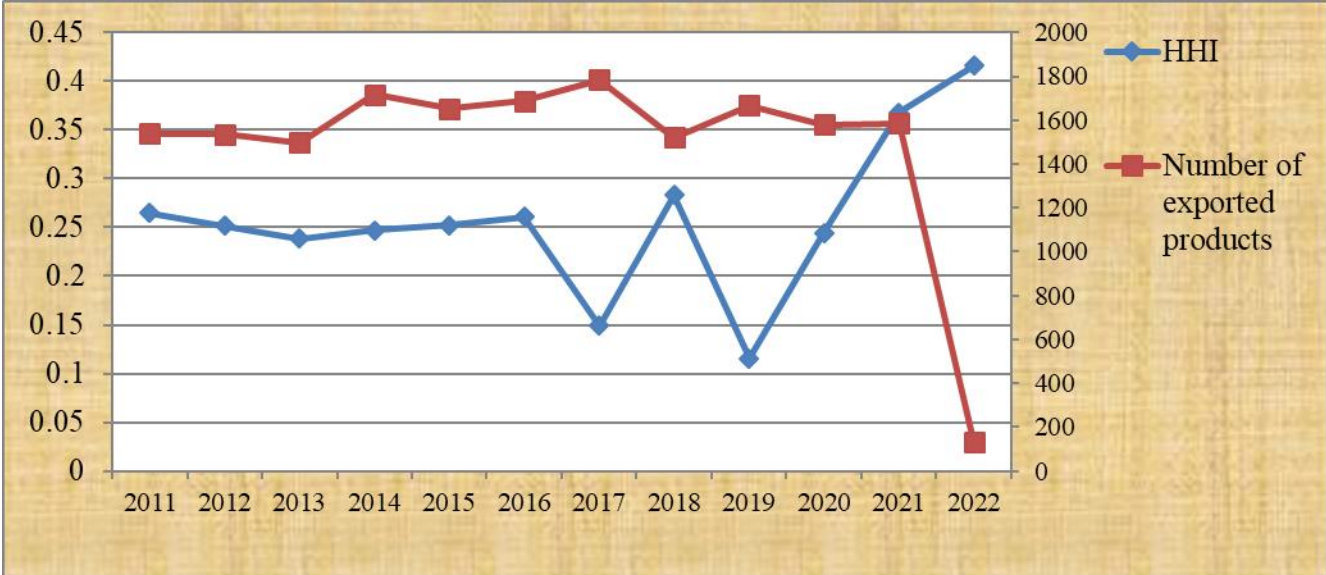
Ethiopia's export diversification patterns remain a significant concern. The country's heavy reliance on traditional sectors, such as coffee and agriculture, continues to expose it to risks, such as global market fluctuations and climate-related challenges, which hinder sustained growth in export performance. The disruptions noted indicate a lack of steady diversification into higher-value goods or new export sectors that could provide stability and resilience.

In conclusion, Figure 3 shows Ethiopia's export diversification trends exhibit a mixed narrative of short-term recoveries clashing with longer-term vulnerabilities. To realise meaningful growth and enhance its position in the global export market, Ethiopia must commit to diversifying its export base, investing in value-added sectors, and implementing strategies to buffer against economic shocks, paving the way toward a more stable and robust export economy.

**4.1.1. Trend of Ethiopia export diversification (2011 – 2023) HHI Index**

This study measures export diversification using the Herfindahl Index (HI). The trend of the HHI index is depicted in the chart.

Figure 5: Trend of Ethiopian Export Diversification: HHI Index



Source: Data from UNCTAD, 2023

The analysis of Ethiopia's export diversification trends over the past decade, as evidenced by the Herfindahl-Hirschman Index (HHI) and the number of exported products from 2011 to 2023, reflects a nuanced picture of the country's export landscape. The HHI measures market concentration, with lower values indicating greater diversification and higher values suggesting a concentration in a few products. In 2011, the HHI stood at 0.2647, indicating a moderate level of diversification; at this time, Ethiopia exported 1,539 distinct products. As the years progressed, a downward trend in the HHI was observed until 2019, suggesting that Ethiopia was diversifying its export base by increasing the number of products offered.

The year 2017 is particularly notable, as the HHI plummeted to 0.1488 while the number of exported products peaked at 1,785. This significant drop in the HHI indicates that Ethiopia was making meaningful strides towards diversification, expanding its export portfolio away from traditional commodities. However, this trend did not maintain its momentum in subsequent years. From 2018 onwards, the HHI rose again, reaching 0.2831 in 2018 and further escalating to 0.3678 in 2021, suggesting that the export base was increasingly concentrated. This rise in concentration indicates a potential regression in the efforts to diversify, with a narrowing focus on fewer products.

The data for 2022 is particularly striking, as the HHI climbed to 0.4156 while the number of exported products dropped sharply to just 134. This sharp increase in the HHI underscores a critical concern: Ethiopia appears to have become more reliant on a limited range of exports, which exposes the economy to greater risk from price volatility and demand fluctuations in global markets.

In summary, Figure 6 shows Ethiopia's export diversification journey from 2011 to 2023. It reflects initial positive trends toward expanding its export product base but highlights a concerning shift toward concentration in recent years. To achieve sustainable economic growth, Ethiopia must address the challenges of product concentration and seek to reinvigorate its diversification efforts, fostering broader and more resilient export capabilities that can better withstand global economic uncertainties.

## **4.2. Relationship between export diversification and economic growth in Ethiopia**

### **4.2.1. Export diversification in Ethiopia (2011 – 2023)**

The Export Diversification Index (EDI) for Ethiopia from 2011 to 2022 provides valuable insights into the relationship between export diversification and economic growth. The EDI is a percentage, with higher values indicating a more diversified export portfolio, which is often associated with improved economic resilience and growth.

In the initial years of the decade, Ethiopia maintained a relatively high level of export diversification, with the index ranging from approximately 73.53% to 76.14%. These levels suggest that the economy was progressively expanding its range of export products, which is typically a favourable condition for fostering economic growth. This diversification helps mitigate the risks associated with relying heavily on a few staple exports, such as coffee or agricultural products and allows for more excellent stability in revenue generation.

The Export Diversification Index significantly increased in 2017, peaking at 85.12%. This sharp rise implies that Ethiopia made substantial progress in expanding its export variety during this period. This is a pivotal factor for economic growth, as it can lead to increased foreign exchange earnings and greater resilience against global market fluctuations.

However, post-2017, the trend shifts dramatically. The index begins to decline sharply, reaching 71.69% in 2018 and continuing to drop, hitting a low of 58.44% by 2022. This downward trend indicates a contraction in export diversification, which may correlate with economic challenges. A reduced diversification index can heighten vulnerability to external shocks and hinder sustained economic growth. The decline in the EDI coincides with a period of economic difficulties and decreased export performance, suggesting that the increased concentration of exports may be linked to broader economic challenges, such as decreased access to markets, production issues, and reliance on a narrower set of exports. The graphic representation of export diversification for the past decades is as follows.

#### **Figure 6 : Trend of export diversification for the past decades**



Source: Own computation from UNCTAD, 2023

Overall, the relationship between export diversification and economic growth in Ethiopia appears to be interdependent. While the initial years of diversification seemed to support economic growth positively, the recent decline correlates with economic stagnation and potential vulnerabilities. To promote more robust economic growth in the future, Ethiopia will need to recommit to strategies that enhance export diversity, which can help stabilise the economy and foster resilience against global economic contractions.

#### 4.2.2. Trend of real GDP (2011 – 2023)

The growth rates of Ethiopia's GDP and specific export categories illustrate a complex relationship between export diversification and overall economic growth. Analysing the 2011/12 to 2023/24 data reveals several key trends.

Ethiopia's real GDP growth rate has shown remarkable fluctuations over the period, with an exceptionally high growth of 35.55% in 2012/13, which subsequently decreased to a low of 3.06% by 2017/18. This volatility suggests that the economy's performance has been sensitive to various internal and external factors influencing investment and consumption patterns. The GDP growth rate rebounded to around 13.92% in 2021/22, but this recovery came amidst significant challenges, including the COVID-19 pandemic and political instability.

Examining specific sectors, Ethiopia's travel services, which constitute a significant part of its commercial service exports, showcased a decline over the years, peaking at 30.06% in 2011/12 but dropping to 15% by 2023/24. This decline in travel services could reflect the broader impacts of global economic conditions, such as heightened competition and restrictive travel policies due to the pandemic, thereby affecting a vital stream of foreign exchange.

Although still a minor portion of total manufactured exports, high-technology exports also demonstrate some volatility. After peaking at 13.65% in 2018/19, this figure fell to 3% in 2023/24, indicating a potential stagnation in efforts to diversify into higher-value export categories. Such trends may signify that despite growth efforts, Ethiopia relies on traditional sectors rather than successfully transitioning to more advanced economic activities.

In parallel, the share of agricultural raw materials in merchandise exports remained relatively low at around 2% until a notable increase to 10% by 2022/23. This highlight hints at an attempt to harness agricultural outputs better. However, the overarching picture underscores the need for improved strategies to capitalise on the agricultural sector while diversifying into more lucrative export markets.

Figure 7 : Growth Rates of GDP and sub-sectors output at Constant Basic Prices (%)



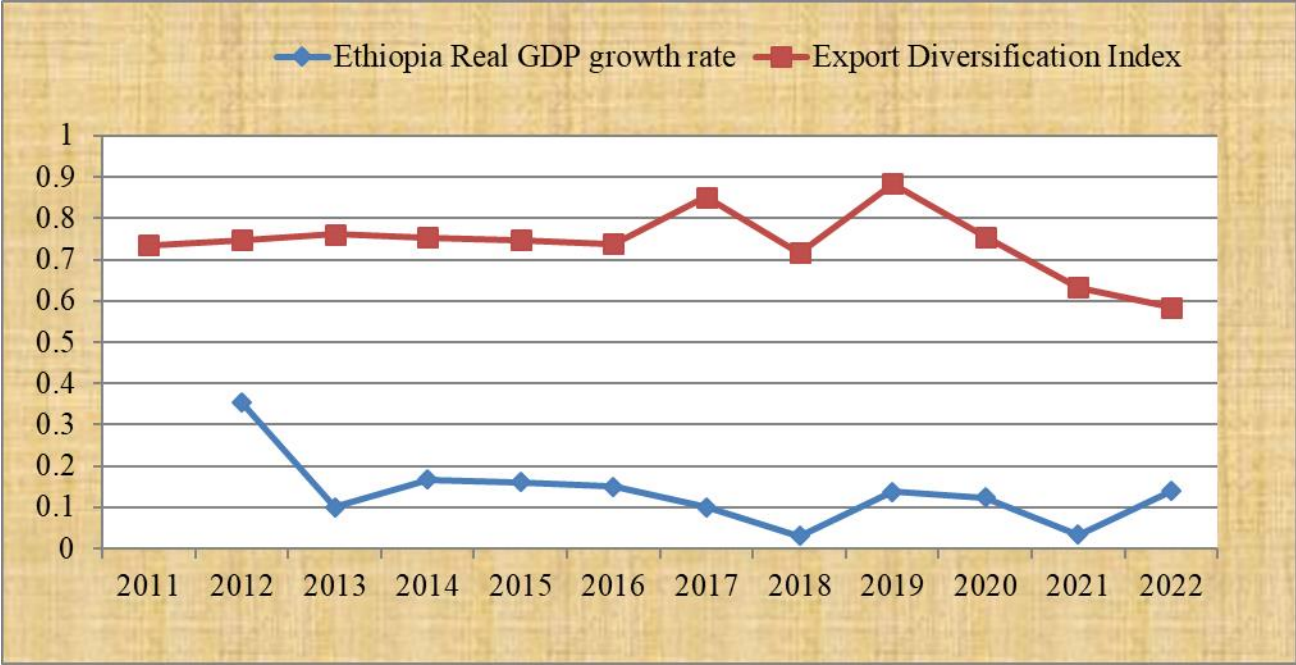
Source: own sketch from MoFED 2011/12 to 2023/24.

Overall, while Ethiopia has experienced periods of significant GDP growth, the underlying dependency on specific export categories suggests that the relationship between export diversification and economic growth remains tenuous. A concerted push towards diversification is essential for Ethiopia to sustain and enhance economic growth. This should focus on expanding the variety of export products and moving toward higher-value-added goods and services, which can provide more stability and resilience against external economic shocks.

**4.2.3. Trend of real GDP and Export diversification in Ethiopia**

Comparing export diversification against the growth rate of real GDP in Ethiopia, one can expect a negative or positive relationship. Figure 9 illustrates the trend in export diversification and the GDP growth rate of Ethiopia on an annual basis.

Figure 8: Trends of real GDP growth and export diversification, 2011-2022



Source: own sketch from MoFED different physical years report and UNCTAD, 2023.

The trends of real GDP growth and export diversification in Ethiopia from 2011 to 2022 reveal a complex interplay between these two economic indicators, highlighting the significance of export diversification in supporting sustained economic growth.

In 2011, Ethiopia experienced a real GDP growth rate of approximately 35.55%, reflecting a robust and rapidly expanding economy. The Export Diversification Index was relatively high at 73.53% during the same period. This indicates an initial solid foundation where the economy was diversifying its export base while enjoying significant economic growth. The following years showed a declining trend in GDP growth, with rates fluctuating but maintaining relatively high figures (around 10-16%) until 2016, paired with a gradual decline in the Export Diversification Index, which dropped to about 73.9% by 2016. This period of declining diversification suggests that while overall growth continued, the economy may have become increasingly reliant on a narrower set of exports.

A notable shift occurred in 2017 when the Export Diversification Index peaked at approximately 85.12%, coinciding with a marked decline in GDP growth to just 3.06% in 2017/18. This paradox indicates that even as Ethiopia expanded its variety of exports, it faced significant challenges that hindered economic growth—such as political instability and external market

pressures. At the same time, diversification efforts may not have been sufficiently aligned with market demand or domestic production capacities to generate the anticipated economic benefits.

In the subsequent years, while GDP growth saw some recovery—particularly in 2021/22 when it was back to around 13.92%—the Export Diversification Index showed a decline, plummeting to 58.44% by 2022. This diversification decline reflects a shift toward more concentrated exports, which can increase vulnerabilities in an economy dependent on fewer sectors, especially in a global market facing uncertainties.

Overall, the relationship between export diversification and economic growth in Ethiopia from 2011 to 2022 suggests that while diversification can theoretically provide stability and resilience, its ineffective implementation may fail to stimulate significant growth. The data highlights that mere expansion in the variety of exports does not guarantee economic prosperity; instead, diversification efforts must be effectively supported by favourable policies, market access, and structural adjustments to realise their full potential. For Ethiopia, focusing on diversification and enhancing productivity in emerging sectors will be crucial in fostering sustainable economic growth.

### **Model specification**

Appendix C's fixed-effects panel analysis results suggest a positive relationship between export diversification and GDP growth. Specifically, the coefficient for export diversification is statistically significant, indicating that a one-unit change in export diversification is associated with an estimated change in GDP growth. This suggests a positive relationship between the two variables, which is statistically significant.

The model also accounts for the variation in GDP growth across years, estimated at 0.0342. The standard error of this variance component is 0.1851, providing an estimate of the variation in GDP growth across years. The random effects estimates indicate significant variation within each year and across years, which is accounted for by including year as a random factor.

The model fit statistics also indicate that the model explains a significant proportion of the variance in GDP growth. The R-squared value within each year is 0.45, indicating that the model

explains 45% of the variance in GDP growth within each year. The R-squared value between years is 0.89, indicating that the model explains 89% of the variance in GDP growth across years. The F-statistic is also statistically significant, indicating that the model is statistically significant overall.

The results suggest a positive relationship between export diversification and GDP growth. The random effects estimates indicate variation within each year and across years, which is accounted for by including the year as a random factor.

### **4.3. Key sector that contributes the most to export diversification**

The analysis of sub-sector output at constant basic prices in Ethiopia from 2011/12 to 2023/24 offers valuable insights into the key sectors contributing to export diversification and their subsequent impact on economic growth.

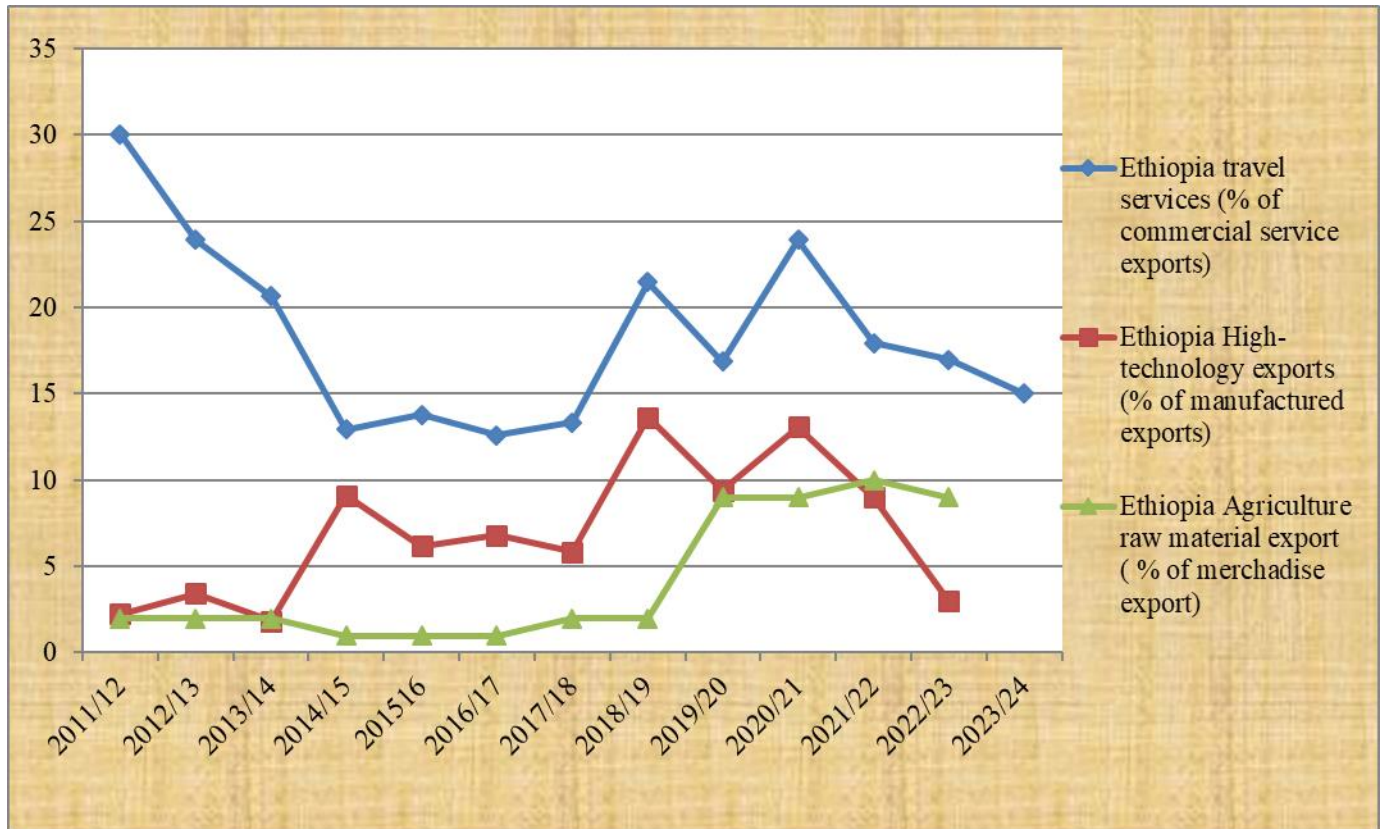
Travel services have historically played a significant role in Ethiopia's commercial service exports, peaking at over 30% of total service exports in 2011/12. However, a noticeable decline is observed in subsequent years, dropping to around 15% by 2023/24. This decline may reflect heightened competition in the global tourism market, as well as potential domestic challenges such as political instability and the impacts of COVID-19 on travel. Despite these declines, the rebound to approximately 24% in 2020/21 indicates the sector's resilience and potential to contribute to economic recovery and growth, highlighting its importance in diversifying Ethiopia's export portfolio.

In contrast, high-technology exports exhibit significant variability while still a tiny part of manufactured exports. After a low of around 2.24% in 2011/12, this figure grew, peaking at about 13.65% in 2018/19 before falling to 3% in 2023/24. The fluctuating nature of high-technology exports indicates the challenges and opportunities in moving up the value chain within export markets. A robust high-tech export sector could provide lucrative Opportunities for economic growth, but sustaining this growth requires strategic investment in technology and related skills development.

Lastly, agricultural raw material exports have shown a stable but modest contribution, consistently hovering around 2% to 10% of total merchandise exports. The increase to 10% in 2021/22 signals a potential shift towards leveraging agricultural outputs more effectively. However, the reliance on raw materials suggests Ethiopia needs to focus on enhancing value-added processing within the agricultural sector to capitalize on its potential to drive economic growth fully.

The data suggests that while specific sectors such as travel services may have shown promise, their volatility underlines the need for a diversified approach to export strategies—key sectors like high technology and agriculture present opportunities for growth and diversification in Ethiopia's export landscape. To fully realise these benefits, policymakers must invest in capacity building, strengthen supply chains, and enhance market access, fostering a more resilient and diversified export economy that can contribute effectively to sustained economic growth. The graphic representation of sub-sector output at Constant Basic Prices (%) for the past decades is shown below.

Figure 9 : Sub-sectors output at Constant Basic Prices (%)



Source: own sketch from MoFED 2011/12 to 2023/24.

#### 4.4. Challenges and opportunities for further diversifying Ethiopia's export base

Building on the analysis of the interplay between real GDP growth and export diversification in Ethiopia from 2011 to 2022, several challenges and opportunities can be identified from the respondents concerning the further diversification of the country's export base.

##### Challenges:

1. Political Instability and Economic Environment: Ethiopia's political unrest and instability in recent years have created an unpredictable economic environment. This can deter foreign investment and affect domestic production, making stabilising and growing diverse export sectors difficult.
2. Export Dependence: The sharp decline in the Export Diversification Index, plummeting to 58.44% by 2022, indicates a worrying dependence on a few essential export commodities. This concentration increases vulnerability to external shocks, such as commodity price fluctuations and changes in global demand.

3. **Structural Constraints:** Structural constraints in infrastructure, technology, and human capital may hamper the development of diverse export sectors. Inadequate transport, communication, and logistics networks often hinder efficient market access for new products.

4. **Market Misalignment:** Even with an increase in the variety of exports, there can be a mismatch between what is produced and what is demanded in international markets. Ineffective diversification initiatives may be due to a lack of market research and understanding of global trends, leading to missed opportunities.

**Opportunities:**

1. **Leveraging Agricultural Potential:** Agriculture remains a cornerstone of Ethiopia's economy. There is significant scope for value addition, biotechnology, and organic exports that could enhance the agricultural sector's contribution to export diversification. Focusing on high-demand overseas markets for processed agricultural products can yield economic benefits.

2. **Investment in High-Technology Exports:** Increased investment in science and technology is crucial for elevating Ethiopia's high-technology sector. This sector's fluctuation shows potential growth; thus, enhancing high-tech manufacturing capabilities and skills can increase global competitiveness.

3. **Regional Trade Agreements:** Strengthening participation in regional trade agreements (e.g., the African Continental Free Trade Area) can provide market access and foster cooperative economic relationships that help diversify exports. By tapping into regional markets, Ethiopia can build demand for more products.

4. **Enhancing Services Sector:** Tourism and travel services have significant growth potential. With proper promotion and investments in infrastructure, targeted marketing, and service quality improvement, this sector could significantly boost the export base and contribute to job creation and economic stability.

5. **Policy Framework and Supportive Environment\*\*:** Transparent and consistent government policies promoting export diversification, infrastructure investment, and innovation support can create a conducive environment. Strong institutions and good governance will be pivotal in overcoming existing challenges and ensuring the effective implementation of diversification strategies.

In conclusion, while Ethiopia faces significant challenges in trend export base, there are also compelling opportunities that, if leveraged correctly, could enhance economic resilience and sustainability. Addressing the underlying issues, particularly political and structural challenges, while capitalising on the strengths of agriculture, high technology, and services will be essential for promoting a more diversified and robust export economy.

## **CHAPTER FIVE**

### **Summary, Conclusion and Recommendations**

#### **5.1 Summary and Conclusion**

This study examined a comprehensive analysis of Ethiopia's export trends and their relationship with economic growth from 2011 to 2023. The analysis reveals a complex narrative wherein Ethiopia has made initial strides toward exporting a broader range of goods. Despite the increase in overall export volumes, the country has faced significant challenges, including a consistent decline in the export-to-GDP ratio and a growing reliance on a limited number of export commodities. The study highlights that while export diversification efforts peaked in 2017, subsequent years have seen trouble in diversification, marked by a rising Herfindahl-Hirschman Index (HHI) that suggests increasing concentration and vulnerability to external economic shocks.

The relationship between export diversification and GDP growth in Ethiopia underscores the importance of effectively managing diversification initiatives. Although positive relations were observed when diversification levels were high, the decline in the Export Diversification Index following 2017 related to economic stagnation, suggesting that mere increases in the number of exported products do not guarantee enhanced economic growth. The analysis of key sectors contributing to exports reveals that while tourism and high-tech exports offer substantial potential, they have faced significant volatility, further indicating the need for strategic investments to foster value-added production and competitiveness.

Moreover, the study identifies several pressing challenges, including political instability, structural constraints, and market misalignment hindering broader export diversification. However, it also points to promising opportunities, such as leveraging agricultural potential, enhancing high-tech exports, and participating in regional trade agreements that could help reshape Ethiopia's export landscape. Thus, addressing these multifaceted challenges while

capitalising on existing opportunities is essential for creating a more resilient and diversified export economy.

## **5.2 Recommendations**

Based on the comprehensive analysis and the respondents' responses, several recommendations emerge to enhance Ethiopia's export diversification and economic growth. First and foremost, the government must establish a stable political climate that fosters confidence among domestic and foreign investors. Political stability is essential for creating an environment conducive to economic activities, as it directly influences investment decisions and the growth of diverse export sectors.

Furthermore, Ethiopia should prioritise diversifying its export portfolio to reduce dependence on a narrow range of commodities. This can be achieved by actively promoting value-added agricultural products and leveraging the country's rich agricultural potential to tap into high-demand markets. Investing in biotechnology and organic agriculture, Ethiopia can introduce more sophisticated and competitive offerings to international buyers.

A strategic focus on developing the high-technology sector can also yield substantial benefits. Policymakers should encourage investments in science and technology, coupled with skill development initiatives that enhance capabilities in high-tech manufacturing. This approach would help create new export avenues and position Ethiopia as a competitive player in global markets.

Engaging in regional trade agreements, such as the African Continental Free Trade Area, presents another significant opportunity for Ethiopia to diversify its export base. Strengthening ties with neighbouring countries can open new markets and foster cooperative economic relationships, enabling Ethiopia to build demand for a more comprehensive array of products.

Moreover, enhancing the services sector, particularly travel and tourism, should be a priority. Targeted marketing, improved infrastructure, and service quality initiatives can position Ethiopia

as a favourable destination for tourists, thus bolstering its export earnings from the services sector.

Finally, it is crucial to establish a robust policy framework that supports export diversification. This involves implementing transparent and consistent government policies that incentivise diversification efforts, invest in infrastructure, and encourage innovation. Strengthening institutions and governance will be vital in overcoming existing challenges and ensuring the successful implementation of these strategies.

In summary, Ethiopia faces both challenges and opportunities in its pursuit of export diversification. Ethiopia can improve its economic resilience and sustainability by addressing structural constraints and leveraging its agricultural strengths, fostering high-tech industries, enhancing regional collaborations, and developing the services sector. A concerted effort focused on these recommendations will be essential for the nation to navigate its path toward robust export trends effectively.

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## **APPENDIX**

### Appendix A: Interview question

1. Can you please introduce yourself and provide some background information on your experience in international trade and economic development in Ethiopia?
2. How familiar are you with export diversification and its potential impact on economic growth in developing countries like Ethiopia?
3. How important is export diversification for promoting economic growth and reducing vulnerabilities in the Ethiopian economy?
4. What specific challenges does Ethiopia face in diversifying its export base and increasing the competitiveness of its products in the global market?
5. Can you identify any successful strategies or initiatives implemented in Ethiopia to promote export diversification and spur economic growth?
6. How do you think the government, private sector, and other stakeholders can collaborate to promote export diversification further and enhance Ethiopia's economic growth?
7. What potential risks or drawbacks are associated with export diversification, and how can these be mitigated in the Ethiopian context?
8. How do you think the findings of this research study on the effect of export diversification on economic growth in Ethiopia can contribute to policy formulation and decision-making in the country?
9. Are there any specific recommendations or suggestions you would like to offer policymakers and stakeholders based on your knowledge and experience in this field?

10. Finally, do you have any additional insights or comments regarding the role of export diversification in driving economic growth in Ethiopia?

Appendix B: Value of export diversification

No	Year	Export diversification index
1	2011	73.53
2	2012	74.8
3	2013	76.14
4	2014	75.33
5	2015	74.8
6	2016	73.9
7	2017	85.12
8	2018	71.69
9	2019	88.42
10	2020	75.6
11	2021	63.22
12	2022	58.44