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   REVIEW OF LITERATURE

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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

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MERCHANDISE EXPORT PERFORMANCE IN ETHIOPIA FOR THE YEAR 2010 AND 2011

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ABSTRACT

Merchandise export is one of the means through which one country could attain foreign exchange. Export performance improvement has often been claimed to be a key element of development strategies for developing countries including Ethiopia. This study aimed to examine diversifications, compositions, growth, competitiveness, balance of trade and export performance with regard to GDP of merchandise export of the last 2 years (2010 and 2011) of current government. The study deals with trade policies towards export performance that has been pursued by the last past two different regimes. In addition, it also give emphasis on fluctuations of exchange rate of Ethiopian currency birr to US dollar and its implications to export performance over the last two years 2010 and 2011 has been mainly considered. Furthermore, data presentations, analysis and interpretations consider export performance of major items, balance of trades as well as export ratio to GDP and import values. Eventually, the research could suggest some ideas for policy makers so as to design balanced approach and policies. The policy implications have been drawn based on the data presentations analysis and interpretations, accordingly conclusions and findings of the study have been made. Hence, the researcher has drawn policy recommendations that have been made based on the findings of the study.

KEYWORDS

Export, foreign exchange, Import, Merchandise Performance.

INTRODUCTION

Ethiopian economy is dominated by the agricultural sector in which the country's development is determined by the performance of the sector. Even though the share of the sector to GDP reveals a continuous declining trend over the two decades, the traditional contribution of the sector to employment and foreign exchange earnings remained almost the same. The bulk of the country's merchandise export earnings are from the agriculture sector. The sector accounts about 80-90% of the total export value while the share of manufactured products was 11 %-12.5 %. This improvement is attributed to the industrial efforts (NBE: 2003). Commodity dependent economies are deemed to have lower growth prospects. This happens as a result of both the unfavourable world demand side and the low-income elasticity of demand for primary commodity. Mostly such primary agricultural commodities in the international market are price taker whatever price given by the supplier should be accepted as long as the items cannot be stored longer and perishable within short periods. On the supply side, the combined effects of lower skill and technology contents of commodity production and its negligible linkages with the rest of the economy would result in lower growth (Bonaglie and Fukasak, 2003: 12). As long as Ethiopia is heavily dependent on commodity exports and therefore vulnerable to external shocks, this might have retarded the export performance and the overall economy in general. To stabilize export earnings and foster growth, the need for accelerating export growth through diversification, improving competitiveness and growing export performance are essential. Improving its competitiveness and diversification to non-traditional manufactured product flourishes in new areas of competitive advantage and is considered as primary development strategy in many developing countries. Sustainable rapid growth in export is immediate solution to maintain GDP growth per annum. This makes the economy of the nation free from permanent dependence on large inflows of foreign aid, and helps to import industrial inputs like machinery, equipment, and consumer goods that rapid industrialization and continued agricultural expansion require (Ministry of Trade and Industry, 1998). Similarly, the current government also underlined the significance of export diversification as it is explicitly stated in its Agricultural Development Led Industrialization Strategy (ADLI) and different measures have been also taken to enhance the sector. However, the problem of dependency on agricultural products is not addressed. Here the core focus of the study is to analyse and investigate merchandise export diversifications, compositions, growth, competitiveness, balance of trade and export performance with regard to GDP of the last 2 years (2010 and 2011) of current government. The study also deals with trade policies towards export performance that has been pursued by the last past two different regimes.Newly emerging developing countries have been unable to significantly increase their export volume on their own. There are many reasons related to the level of national economic development to explain this. One main reason is the lack of knowledge about the many complex challenges involved in marketing abroad. International marketing is a much more complicated process than marketing and selling in the domestic economy.

To encourage growth of exports, governments can step in and provide business communities with needed support in various ways. Governments have many different policies, programmes and activities to help develop competitive products and increase export sales.(WWW.unescap.org*/tid/publication)*.In contrast to inward looking development policy, outward-looking development policies "encourage not only free trade but also the free movement of capital, workers, enterprises and students…, the multinational enterprise and an open system of communication" (Todaro, 2002: 498). With the exception of petroleum and certain minerals, primary-product exports have grown more slowly, and the share of least developed countries exports has been declining over the few decades. Todaro (2000: 500) pointed out the factor that affecting demand for and supply of primary product exports of developing countries: On the demand side; the income elasticity of demand for agricultural products are low. Second, population growth rate of developed countries are low and at replacement level, so little expansion can be expected or needed from this source. Third, the price elasticity of agricultural commodities is low. Fourth and fifth factors working against the long-run expansion of least developed countries agricultural export earnings the development of synthetic substitutes and the growth of agricultural protection in developed countries are the most important.

REVIEW OF LITERATURE

Trade generates both static and dynamic gains in the country's or domestic economy. Static gains occur from the reallocation of resources between the trade and non-trade sectors following the opening up of the economy to trade. Resource reallocation enables the country to specialize in those lines of activity in which it possesses a comparative advantage and also enables it to benefit from exchange gains by trading with countries (FU X. 2004: 2). These static and dynamic gains of export trade in turn promote economic growth and these are described by export led model. In this model trade assumes as engine of growth. Some economist like Essang (1981) criticized the model for some reasons; the model assumes that, as there is perfectly elastic demand for primary(agricultural) exports, the problem of demand and market access for agricultural exports of developing countries did not consider and the protectionist policies of developed countries have been ignore. It also offers no guide for emerging economics where there is competition for agricultural raw materials between export market and domestic agro-allied industries. As a discipline economic development has been grow in connection with the debates of the time; trade specialization, and terms of trade or distribution of gains between commodity exporters and industrial countries. Prebisch (1950) and Singer (1950) . Based on the free trade theory, specialization for developing countries, implied reliance on export of agricultural commodities in exchange for consumer and investment goods. According to Prebisch and Singer this pattern had two critics. First, the long-run trend in the terms of trade for developing countries, for which the empirical evidence is still rather inconclusive, free trade, is less beneficial for them. Secondly, too much reliance on primary commodities exports results in short run export revenue volatility, which has detrimental effects on planning public and private investments, import capacity foreign exchange inflation and growth. Chanthunya and Murinde , (1998) After the WWII the three decades was devoted to find ways of escaping from the above stated short and long-run economic effects on the basis of different development strategies. One of the dominant strategies was diversification of exports through less reliance on primary commodity exports and domestic economic diversification by adopting an Import Substitution Industrialization (ISI) strategy. This view prevailed as a development strategy in a number of developing countries from 1950's and the 1960s. By mid 1960s many of developing countries abandoned the import substitution industrialization strategy, as the strategy could not provide the promising achievement. Jayantha kumar also (2000) noted that, switching in to import substitution industrialization was the only option for developing countries to grow with the given export pessimism case and switching in to ISI was also perceived as a means of reducing the income elasticity of demand in the less developed countries (periphery) for its manufacturing imports from the developed countries. According to Khalid (2003) higher exchange rate volatility will reduce trade by creating uncertainty about future profit from export trade. By using the forward markets and by managing the timing of payments and receipts the firm can reduce the uncertainties in the short run. In the long run, exchange rate volatility may also affect trade indirectly by influencing firm's investment decision. However, the commercial investors have limited possibilities of trading claims to future operational cash flows. Thus they are forced to shift away from risky markets.

SCOPE OF THE STUDY

Ethiopia is one of the countries in horn of east Africa. Like other the least developed countries, it is facing the problem of downward trend in export earnings and terms of trade. This is due to the fact that these countries do export only primary products that market price is not stable from time to time, hence they are price taker. In fact, policy makers should expected to deal with such issues so as to bring change on balance of trade by improving export items. Therefore, the study focuses on Ethiopia's merchandise export performance evaluation for the last past two years that is for the year 2010 and 2011 by dividing in to quarter annuals for detail analysis. Data has been categorized based on export value in different months, various types of commodities and different destination countries for export. Due to absence of data for the year 2010 only three quarters has been taken while 2011 data has fully considered. The study focuses more on basic export items like coffee, pulses, oil crops, flowers, fruits, vegetables and others. Furthermore, it is also expected to propose ways of export diversification by examining the composition of exports.

OBJECTIVES OF THE STUDY

- To analyse competitiveness and diversifications of export commodities and hence, suggesting appropriate course of actions.
- To identify Impact of exchange rate fluctuation on export performance in Ethiopia for the year 2010 and 2011.
- To investigate percentage constitute of export value, out of the Gross domestic product (GDP) during the past last two regimes and past last two years of the current government.
- To draw policy recommendations based on the findings that could be done according to analysis and interpretations.

RESEARCH METHODOLOGY

The study utilized descriptive research methods whereby secondary source of data used as the tool for data source from different organizations such as ERCA (Ethiopia Customs and Revenue Authority),CSA(Central Statistics Authority of Ethiopia),NBE(National Bank of Ethiopia) ,MOFED(Ministry of Finance and Economic Development), IMF(International Monetary Fund reports) UNCTAD(United Nations Conference for Trade and development) and other relevant websites will be referred regarding data 2010 and 2011. Raw compiled statistics, Publications, Bulletins, Annual and quarter reports, newsletters, books and other relevant materials will be referred. Moreover, literatures are reviewed from various books; other related research reports and relevant websites are used. Furthermore, data tabulation, graph, pie and Bar charts and various analysis techniques will be used for the detail data presentation and analysis. Analysis and presentations of the data will be carried out by dividing annual data of 2010 and 2011 in to quarter annual category so as to enhance ease and understandably of the research. In order to investigate detail of export percentage constitutes of GDP various ratios like export to import, import to GDP and export to GDP and also growth rate of export for the year 2010-2011 has been undertaken.

RESULTS AND DISCUSSION

Under this topic the competitiveness and diversification of export items will be analysed. The major competitive advantage and their weakness in the international market could be under consideration. On the other hand whether export items are varied from time to time and if there is new export items will enter to export market of Ethiopia will be dealt based on the given data below of 2010 and 2011.

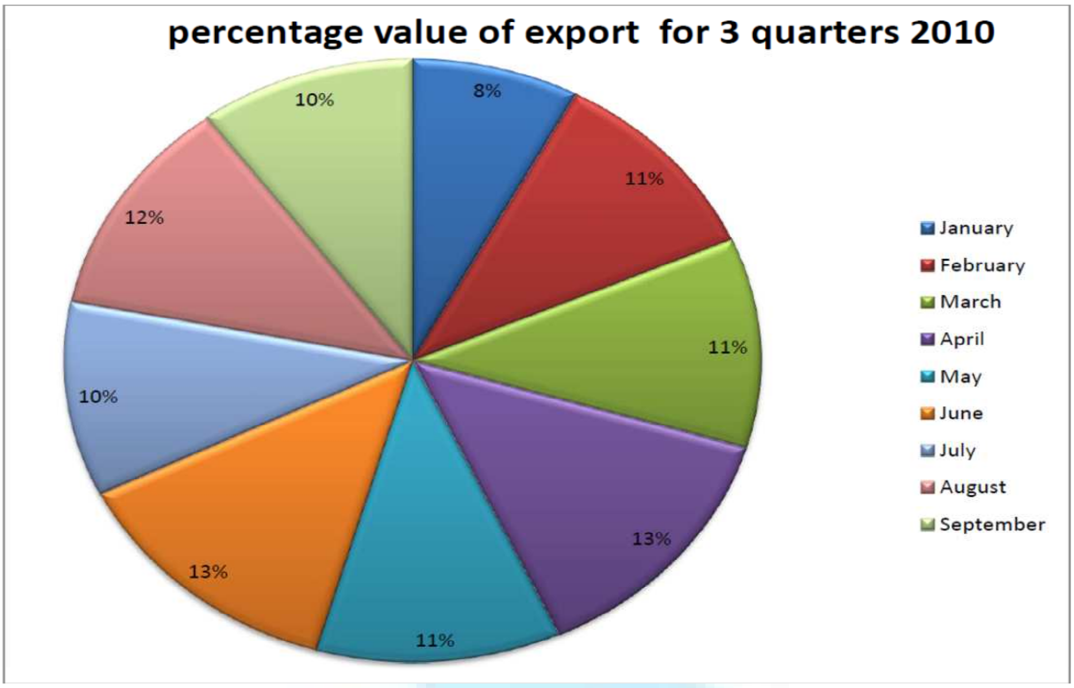
TABLE 1: EXPORT EARNING ANALYSIS BASED ON MONTHS FOR 2010 AND 2011

Period	Value in" 000" birrs	Percentage
January	1895511	8%
February	2591030	11%
March	2735287	11%
April	3274703	13%
May	2770971	11%
June	3217971	13%
July	2544602	10%
August	2862183	12%
September	2455877	10%
October	-	
November	-	
December	-	
Total	24348135	100%

Source: Computed from CSA (Ethiopia centre of statistics authority), External Merchandise Trade - www.csa.gov.et

The above data shows export values in birrs for three quarters of the year 2010 that is from January –September. Due to absence of the fourth quarter data, the researcher only tabulate the first three quarters. Hence the data analysis could be as follows. As we understand from the above export value in birrs 2010, in the month of June and March export earning has attained its peak at 13%. While, in the month of August it become 12%, May, February and march 11%. This implies that the percentage of value of export is in little gap fluctuation across the months, except that of the first month January which is 8% of total export. If we consider quarterly, we observe that the 2nd quarter's export is greater as compared to the other quarters, while the first quarter is the least relative to others.

FIGURE 1: ETHIOPIAN EXPORT PERCENTAGE



Above figure shows percentage value of export in birrs for 3 quarter periods of year 2010. As the graph shows the export earnings increases at the first quarter periods, then at the middle quarter fall and again rise or some fluctuations. Therefore, we can conclude that the export earnings don't show any constant trend across months. Rather it indicates random fluctuations. This shows demand of the export commodity fluctuates randomly as far as almost all of the commodities are agricultural products. On the other hand, production of agricultural product is only once. That means it follows the summer rainy season, it doesn't follow, modern cultivation methods like irrigations. Besides, there are few small household farmers as compared to investors who engaged in export commodities production.

TABLE 2: EXPORT VALUE 2011 BY MONTHS

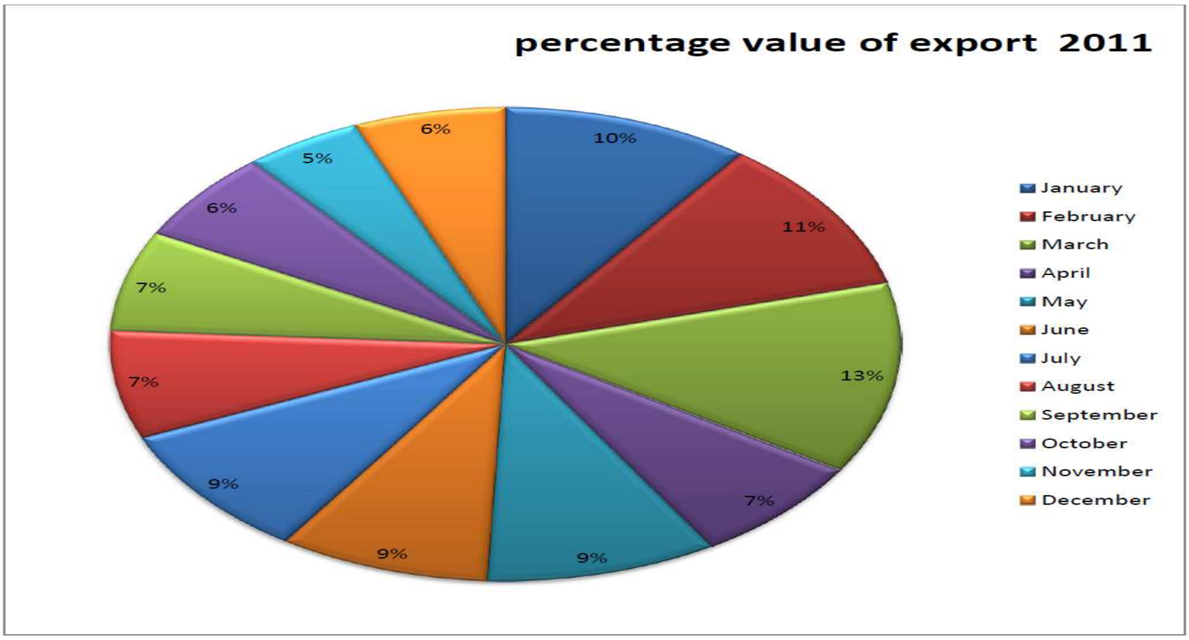
Period	Value in" 000" birrs	Percentage
January	5032079	10%
February	5276507	11%
March	6487675	13%
April	3636175	7%
May	4694817	9%
June	4301888	9%
July	4521507	9%
August	3646894	7%
September	3389304	7%
October	3073452	6%
November	2390786	5%
December	3073310	6%
Total	49524394	100%

Source: Computed from CSA (Ethiopia centre of statistics authority), External Merchandise Trade - www.csa.gov.et

The above table shows the 4 quarter data of export value per months of the year 2011. The most peak export earning is recorded in the month of March that is 13%, while the months of February and January are second and third rank. On the other hand, May to July 3 months export value in birrs are the same (9%) of total export of the year. In addition, the last 3 months are the least record of export value of the year. Furthermore, we can analyse by categorizing months based on quarters. Accordingly, the first quarter is the greatest export value record of the year ,that is average percent export value 11.3%, while the second quarter is second rank .On the contrary, the last quarter has average export value of 5.66% which is the least quarter value of export of the year 2011. In Ethiopia the first quarter of the year is winter, which is the dry season. It is the time when most agricultural products are harvested. Hence, excess commodities , specially individual household farmers sell products such as coffee, sesame, Kidney beans and others to their local markets so that those exporting organizations export due to excess supply of the commodities during this season. Gradually, the supply decreases due to those produced agricultural products are some consumed locally while only the excess quantity of farmers' consumption will be exported.

In general, majority of export items of agricultural products are sourced from the small traditional house hold farmers, who based their production on the rain than other mechanisms like irrigation.

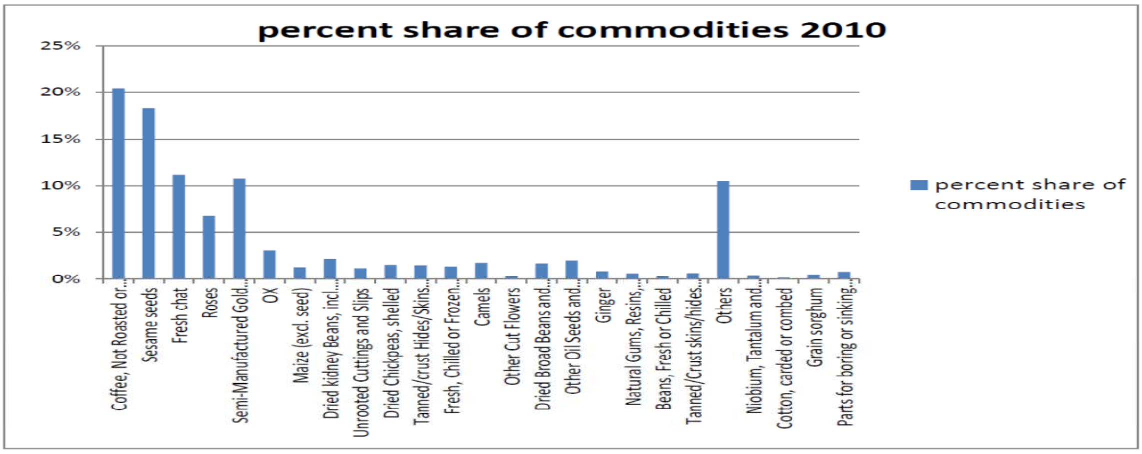
FIGURE 2: ETHIOPIAN EXPORT PERCENTAGE IN 2011



The above shows the percentage value of export trends as per the four quarters of the year 2011. We can imply from the graph above that the trend of export earnings increases for three months and later decreases, particularly the last 3 months. Accordingly, as the trend indicates Ethiopia's export decreases during the last quarters due to the following reasons. First as far as export agricultural products are supplied by small household farmers. Secondly, Ethiopia's agricultural production systems are not mechanized hence produced in small quantity. Thirdly, only few private investors engaged in the sectors, which could produce using irrigation. Fourth, infrastructure problems like transportation vehicles, roads, electrical powers and scarcity of fertilizers that could obstacles the supply on the right time to the markets.

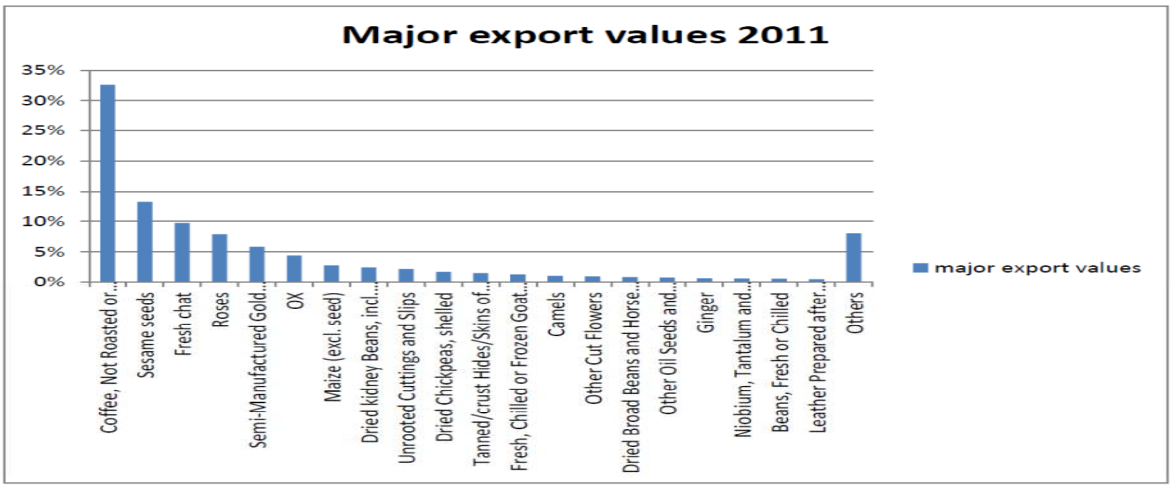
EXPORT EARNING ANALYSIS BASED ON TYPES OF COMMODITIES FOR THE YEAR 2010 AND 2011

FIGURE 3: PERCENTAGE SHARE OF COMMODITIES IN TOTAL EXPORT OF YEAR 2010



As we can see from the graph, there is no export item diversification across the quarters, it is only common items like coffee, sesame seeds and fresh chat are dominating the export earning of the country. This implies export sectors are not given due attention as far as only the same commodities, particularly primary products are exported throughout the years. On the other side, sesame seeds and Fresh chat have been declined from (18% to 13%) and (11% to 10%) respectively of the value of total export earnings.

FIGURE 4: MAJOR EXPORT COMMODITY VALUE IN 2011



Similar to the year 2010, the year 2011 data indicated in the table-4, the dominance of commodities like coffee, sesame seeds, Fresh chat and Roses have maintained, although a little bit percentage of the total export item value have been changed. From the table, coffee (33%), sesame (13%), fresh chat (10%) and Roses (8%) of the total export value of the year 2011.Hence, this shows coffee export has been a little bit grown, although in 2010 only 3 quarters considered while in 2011 all 4 quarters have been considered. Rose export shows some growth from (7%-8%) in the respective years. On the other hand, sesame seeds and fresh chat export value have declined from (18%-13%), (11%-10%) respectively for the year 2010 and 2011. From the data we can sum up that, majority of the export items are primary agricultural products. These products are completely raw and value adding activity not been carried out due to various infrastructure problems. Absence of technology for processing or value adding activities for those agricultural products results in increase of cost of quality, difficulty of transportations, little margin per quantity and others.
Moreover, Most of these items are very perishable, hence they should be handled properly and also there should be speed transportation so as to deliver them to customers on time. Primary products like hides and skin should be treated with chemical before transporting .There should also be convenient air conditioning as soon as possible and reach the target customers. Besides, products such as fresh chat and Rose should be as fresh as possible when it reaches target customer. This is because once they loss their freshness they are valueless, only incurring cost.

FINDINGS
The first quarters of both year 2010 and2011 is the greatest export value record of the year ,that is average export value is 11.3%, while the second quarter of the years has ranked next .On the contrary, the last quarter has average export value of 5.66% which is the least quarter value of export of the two years. Major export commodities such as – coffee, sesame seeds, Fresh chat, Rose, hides and skin, gold and others should be given due attention, although designing strategies of developing other commodities or diversifying is needed. This is because competition increases from time to time as far as those commodities are primary products; they can be easily copied and produced by other countries. Major export items constitute - such as coffee (20%), sesame (18%), fresh chat (11%) and roses (7%) of the total export value of the three quarters of 2010. In 2011 coffee (33%), sesame (13%), fresh chat (10%) and Roses (8%) of the total export value. Based on average export value destination, Ethiopia's strong foreign trade partners for the year 2010 and 2011 are China, Germany, Saudi Arabia, USA, India, Netherlands and others are ranked 1st ,2nd, 3rd,4th, 5th and 6th respectively. China, Germany, Saudi Arabia, USA, India, Netherlands and other countries which are the dominant importing countries from Ethiopia, the majority of their imports are in the 1st quarter of the year 2011. Some commodities like Coffee, Cut Flowers, Beans Fresh or Chilled, Unrooted Cuttings and Slips and Maize (excl. seed) export value have grown from 2010 to 2011 more than 200% of that of 2010. Besides items like Sesame, fresh chat, tanned crust skins and hides of goats and sheep, fresh chilled goats meat and Ginger has grown ranging from 20%-97%. Meanwhile Roses, ox, dried kidney beans, dried chickpeas and natural gums export have grown more than 100%. On the contrary, commodities like camels, dried broad beans; semi manufactured gold and other oil seeds export value has declined. In general, we can conclude that the growth of total export value from 2010 to 2011 has increased by 86%. In both year 2010 and 2011 export value is less than 1/3 of import value. In the third quarter of 2010 ETB devaluates from13.63 to16.35 against USD. This has been done by government so as to encourage export performance. Devaluation of ETB has long term effect on the export performance which might cause cost-push inflation. The price of those inputs for the export items will rise as long as they are imported from other countries. The overall manifestation of exchange rate trend for the two years 2010 and 2011 shows that value of ETB to USD is continuously devaluating. Although the general trend in the long or medium term period shows devaluation of ETB to USD, there is short term rapid fall and rise of value of ETB to USD. Accordingly, exporters face transaction exposure for short term period. Ethiopia's exchange rate system has been operating under floating exchange rate system beginning from 1992.

CONCLUSION AND RECOMMENDATION
In order to increase local production in quality and quantity , Government should encourage development of local industries both existing and new established through building their capacity, subsidizing, tax holidays , free tariff of investment machineries and tools, smooth and ease license procedures and others mechanisms. Besides the government should also encourage domestic customer to purchase local products by promotion and levying high tariff on imported goods which will be resulted in high price. Accordingly, the local infant industries will grow and strengthen their capacity and their products become competent locally as well as in the international market. Government should create conducive environment for private investors and cooperative farmers. Besides organizing farmers' cooperatives by providing facilities they demand like finance through micro finance and other infrastructures. Farmers should be organized in cooperatives so that they can strengthen or develop their capital and mechanize their agricultural production systems. The primary agricultural products should be converted at least to semi-processed items, thereby the price charged for the items will be more or the exporter earn margins will be more.
In order to reduce balance of trade deficit the government should encourage local infant industries through different incentive mechanisms like low percentage of taxation, free tariff import of industrial machineries and tools, subsidizing medium and small scale enterprises, promotion of the locally produced products so as to enhance domestic market for local products and other various techniques. ETB to USD continuously devaluating from time to time, this resulted in cost-push inflation which in turn effect on the long term aspect of export performance as price of inputs of export items increase. Currently in Ethiopia there is high inflation in February 2012 inflation reaches to 36% source Reuters Africa, hence it is better to maintain the exchange rate managed to maintain price stability.

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