FACTORS DETERMINING THE DIRECTION AND VOLUME OF THE EXTERNAL TRADE OF ETHIOPIA: 1957 – 1993 (AN ECONOMIC GEOGRAPHIC PERSPECTIVE)

Bekure Woldesemait*

Abstract: *This paper attempts to explore the status and orientation of Ethiopia's foreign trade from 1957 to 1993. First, the principles of trade are briefly stated. These make part of the explanatory variables as regards the basis and orientation of the external trade. Second, the volume, measured in terms of value, and orientation of the external trade are presented. Third, the role of the explanatory factors – trade theories, policies, and political conditions in determining the volume and geographic orientation of trade and selection of trade partners are discussed, giving specific examples. Finally, a recapitulation of the findings is made and the lessons that can be drawn are highlighted.*

INTRODUCTION

We shall briefly discuss the objectives, methodology, and literature review of the study hereunder. Trade – domestic or external - is a sub sector of the tertiary activities of an economy that progressively assumes importance. It is an activity closely related to the evolution of material production in the context of the evolution of science, technology, and human organization. Thus, it is at the same time, a part and an indicator of growth and development. External trade is an aspect of international relations which means that its development is hindered or promoted by physical and cultural conditions both at the origin and destination of commodities. Therefore, this study is undertaken to understand the status of the external trade of Ethiopia with the view to providing information useful to policy formulation.

* Department of Geography, Addis Ababa University. P.O. Box 1176

Objectives:

The objectives of the study are to:

a) review briefly some principles/theories of trade and trade policies of Ethiopia during the period under discussion;

b) assess the evolution of the volume and orientation of the external trade;

c) examine the commodity composition and its implications;

d) reflect on some of the major factors influencing its evolution and orientation; and

e) raise the major issues and suggest possible measures to be taken to improve its performance.

Data and Methodology:

Since the study covers more than 35 years and the discussion is done at macro level, only secondary data is used. . The sources of most of the data used are the statistical abstracts issued by the Central Statistical Office (CSO) or the Central Statistical Authority (CSA). In passing, it is useful to note that the two designations (CSO & CSA) are used at different periods (CSO up to 1985 and CSA from 1986 to date) for the same organization. The methodology employed is compiling, making simple computations, classification, graphic presentation, description, analysis and explanation.

Literature Review:

Trade has its opponents and exponents. For some, including the earliest economists such as A. Smith, D. Ricardo, J. S. Mill, trade is a beneficial activity for countries, regions, localities and individuals to engage in. More recently, Bhatta (2002) stated that results of his study indicated that global income inequality exhibited a down ward trend between 1960 and 1989, and, though there is a positive relationship between inequality and openness

to international trade, the relationship is not statistically significant. No doubt that this author admits the benefits of trade.

For others, especially with Marxist orientations, it is a mechanism by which one side exploits and impoverishes the other or others through market control or unequal exchange (Emanuel, 1972; Kay, 1976). Emanuel believes that by buying raw materials cheap and processing and selling back at unreasonably high prices, industrialized countries have impoverished Third World countries. Kay's argument follows the same line. Trade, controlling the market rather than production and acting on its own behalf in the 17th century, and as an agent of industrial capital during the second half of the 18th and 19th centuries, was responsible for the underdevelopment of the Third World. At present popular protests against free trade are common places whenever and wherever international meetings on the subject of free trade (globalization) are held.

Whatever the stand taken by scholars and popular protesters, trade takes place and there is no country that does not engage in international and internal trade. The following are possible explanations for the expansion of trade in spite of the oppositions cited. Many small countries may have little choice about whether to opt out or not (Todaro, 1986). Another reason is that there is no country that is absolutely self-sufficient in all its material needs. Thirdly, economic factors convince countries to engage in international trade. One needs, however, to note that an absolutely free trade does not exist since it is interfered even by its 'strong' proponents through the use of different protection mechanisms. Regional economic organizations employ several mechanisms to discriminate between members and non-members regarding international trade. For this reason, some suggest that it is regionalization of trade, not globalization that is prevailing.

The period 1957 to 1993 is selected because data on imports by origin and exports by destination that are necessary for the discussion of geographic trade orientation is not available for periods before and after the years cited. Also, the CSA, the major source of the data used, has started to use a modified classification of commodities after 1993 making comparison difficult. In addition, all the socio-political explanatory factors needed to

demonstrate the objectives of the paper are encountered during the 1957-1993 period

PRINCIPLES OF TRADE

Three groups of principles of trade are often recognized – one concerns the reasons for engaging in trade, the second concerns the items (goods) traded, and, the third concerns the selection of trade partners - the geography of international trade (Hanink, 1994). We shall briefly discuss the three groups of principles hereunder.

On reasons for trade and types of goods traded

The major factors that explain the reasons for trade and types of goods traded between countries, regions, and persons are: 1) differences in factor endowment, divided into natural and human endowment, between countries and regions, 2) comparative advantage, 3) economies of scale, and 4) product differentiation. All encourage specialization and exchange – trade.

a) Differences in factor endowment

Factor endowments relate to natural and cultural conditions of an area related to the production of a given good and the matching of the factor endowment to factor intensity (Hanink, 1994). Different areas have different factor endowments.

i) *Differences in natural endowment* are manifested in differences between regions in natural factors of production such as climate, soil, landform, flora and fauna, and underground resources. Though to varying degrees, all production activities are affected by these differences either individually or working in conjunction. Perhaps, the most affected are biological productions such as agriculture. Whatever the degree of impact, it would be advantageous for countries or regions to engage in the production of those materials for which they have natural advantage, and obtain through exchange the materials that they do not produce, or can produce only at a very high cost. Though much of the impact of natural factors is progressively subdued as a result of advances in science and technology,

there is still a lot that discourages the realization of certain products making them either highly uneconomical, or prohibiting them completely.

ii) Differences in human resource, taste or aptitude between persons and groups are common observations. Persons and groups have different levels of skill and training and prefer to engage in activities that interest them in neglect of other activities that do not. Consequently, they develop special skills that provide them excellence and effectiveness in those activities they have chosen. In addition, taste for consumption also varies between groups. It is possible that the natural factors to produce a good exist in a geographic area while the taste for that product does not. In such places, a product may be undertaken for exchange. Thus, it is advantageous for persons and groups to engage in production in which they have special aptitude or natural endowment and exchange their products for those that they do not produce. Such specializations do also increase global production and productivity.

b) Economies of scale advocates that instead of countries, regions, groups and individuals spreading and thinning out their resources to produce some of everything, it would be advantageous for them to concentrate their efforts on the production of a limited number of products. Such concentration of effort enlarges the scale of production and brings effectiveness until an optimal size is attained. Unit cost is lowered related to unit of investment, and the development of special skills and productivity are made possible. Small-scale operation may not enable the full utilization of natural and human resources and the employment of different skills.

c) Comparative advantage advocates that if a country compared with another has clear advantages in the production of, say two goods, it is still beneficial for that country to trade with the other country in the commodity where it has relatively low advantage. To give a banal example, let us assume that Ethiopia and Kenya produce a quintal of tea and coffee of similar quality according to the following schedule.

Table 1: Comparative advantage (hypothetical example)

Country	Production cost		Comparative cost		Barter terms of trade	
	coffee	tea	Coffee /tea	Tea /coffee	Coffee /tea	Tea /coffee
Ethiopia	20 mh	16 mh	5/4	4/5	1.25	0.80
Kenya	10 mh	12 mh	5/6	6/5	0.83	1.20

Source: Author (after the example of Hanink (1994), 249. mh = man-hour)

From the table, it appears at first look that since Kenya produces both coffee and tea at cheaper prices than Ethiopia, she does not need to import any of the two commodities from Ethiopia. But the law of comparative advantage disproves our observation. The comparative costs of coffee and tea and tea and coffee are different for the two countries.

Comparative costs have to be translated to barter terms of trade. *Barter terms of trade* (btt) is defined as the ratio of imports to exports. It refers to the amount that one can import by exporting a unit of a given product. The higher the ratio of btt. the more the advantage. Thus, it is advantageous for Ethiopia to export tea to and import coffee from Kenya. Similarly, it benefits Kenya if she exports coffee to and imports tea from Ethiopia. The source of comparative advantage is factor endowments discussed earlier.

d) Product differentiation – to explain trade that take place outside the principles discussed above, economists invoke product differentiation. This relates to differences either in the type or quality of product, respectively called horizontal and vertical differentiation. Trade may take place as a result of product differentiation even if the law of comparative advantage does not apply.

On the selection of trade partners

The other group of principle of trade relates to the selection of trade partners among many possibilities. Thus, they are listed as complementarity,

intervening opportunity, and transferability (Ullman, 1980). By complementarity is meant that trade can take place between two countries, regions, groups or individuals, only if what one country, region, group or individual does not produce (for whatever reason, and still wants the product[s]) another country, region, group or individual produces, preferably, in surplus. The country that lacks the given product buys from the country that produces it, preferably in excess quantity. Transferability means that for two countries to engage in trade between them, the cost of procurement, measured in terms of money, time, and other forms, should be affordable and permissive. Thus, one will not travel from Addis Ababa to Dire Dawa to buy two tablets of aspirin while he may do so to buy sports outfits for a team. In the latter case, the cost of procurement is justified by the volume of transaction. The third principle – the principle of intervening opportunity - states that the absence of a better source third country (say C) between two possible trading countries (say A and B) is necessary for countries A and B to trade. Otherwise, the intervening opportunity, C, captures the trade from either A or B.

Trade policies and political factors

For various reasons explicit policies are formulated by governments to regulate trade. Since international trade is an aspect of international relations there are also implicit policies that are employed under cover. Both explicit and implicit trade policies affect the amount, direction and types of commodities imported or exported. Befekadu et al (1999/2000) characterize Ethiopia's trade policy as protectionist (pre 1991), and liberal (post 19991). The liberalization of the international trade has been described by the same authors as a phenomenal shift from the pre-reform policy, and in line with IMF and World Bank requirements. The policy reform measures embraced devaluation of the Birr, introduction of biweekly and later on weekly foreign exchange auction, suspension of taxes and duties on most exportable items, reduction of license fees and simplification of license issuance procedures, reduction of the foreign exchange surrender to the NBE down from 100 percent, as well as the maximum import duties from 280 percent to 80 and 50 percent consecutively, and privatization of trade (Medac 1999: 58 - 59). In addition to the trade policies, there are internal and external

political factors that play limiting or promoting roles on trade. The effects of trade policies and political factors are discussed later under number 3.

VOLUME AND ORIENTATION OF ETHIOPIA'S INTERNATIONAL TRADE

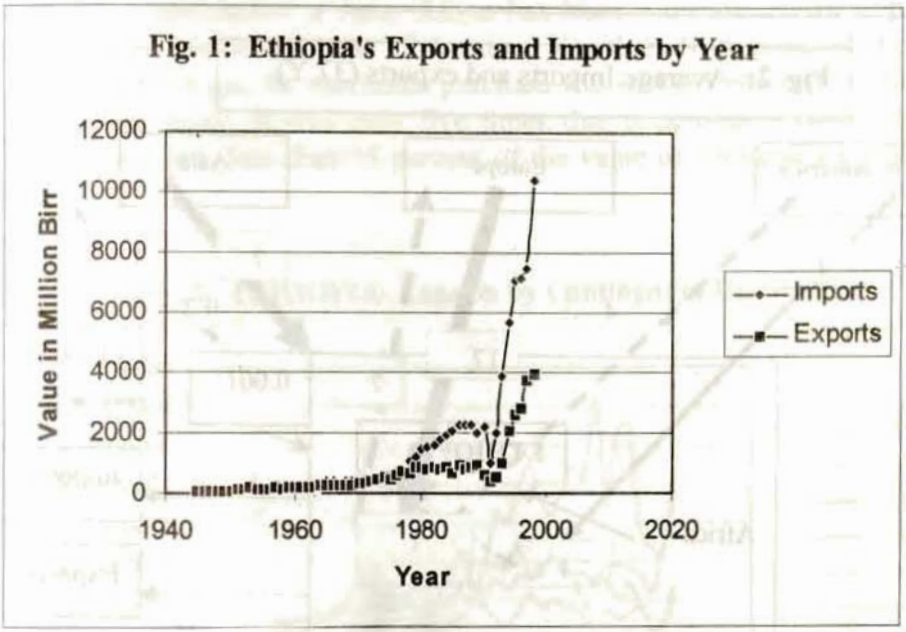
Under this heading, the volume measured in terms of value, the balance between exports and imports, and orientation of the international trade of Ethiopia are discussed.

Volume and balance of trade

Naturally, the volume measured in terms of the value of the international trade has increased between 1957 and 1993 many fold, as a result of both real increase in the amount of commodity traded and devaluation/inflation. The effect of devaluation on promotion of international trade is related to a number of conditions such as the volume of the trade in the international context (Befekadu 1991), and the sum of elasticities of the domestic demand for imports and the foreign demand for the country's exports (Reimer 1975). According to Befekadu devaluation shall have positive impact on the balance of trade only if the country's volume of trade is large enough to affect world prices. Reimer states that for devaluation to have positive impact the sum of elasticities of the domestic demand for imports and the foreign demand for the country's exports must be greater than one.

Compared with that of 1957, imports have increased by 1993 more than 20 fold and exports more than five fold. It is alarming to note that the balance of trade (the difference between the monetary value of exports and imports) has remained negative, with rare exceptions, throughout the years, and that, at a consistently increasing amount. Figure 1 demonstrates the situation. It is useful to note that the lower growth of exports has significance since exports are considered to serve as a propulsive sector of development (Gebeyehu 1983).

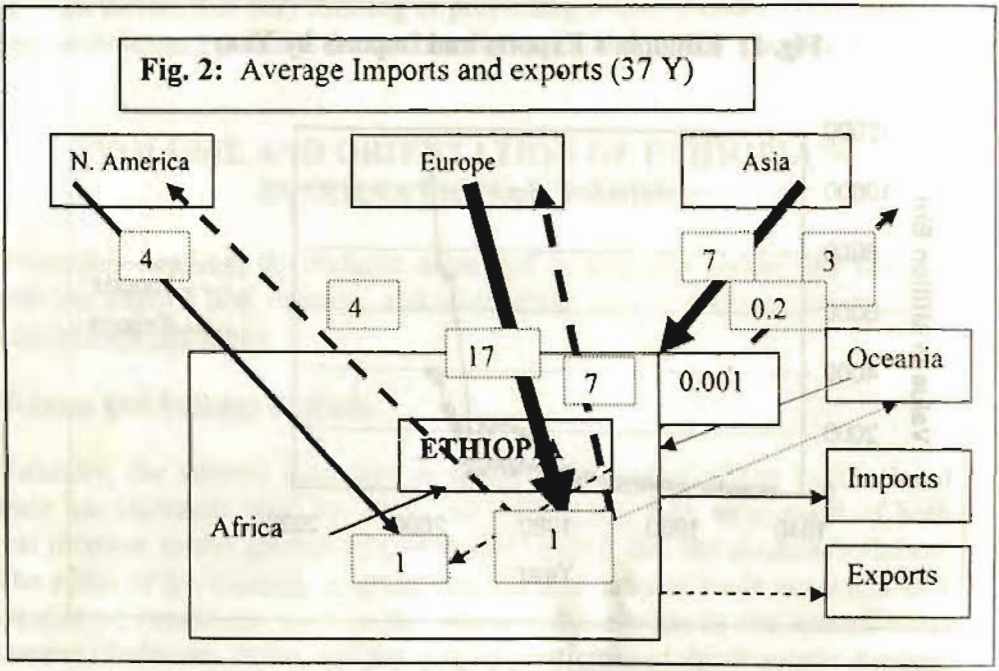
Fig. 1: Ethiopia's Exports and Imports by Year



Source: Compiled from CSO/CSA Statistical Abstracts

The situation demands an immediate correction since any country must avoid negative balance of payments and change the balance to its favor if possible.

The averages for 37 years of import and export flow from and to the continents trading with Ethiopia is shown in the following figure. Excluding imports and exports from and to Oceania and those marked "not stated" the rest have been indexed taking the lowest average as 1. Thus, the lowest average value, that of the imports from Africa (35,356,000), has been taken as 1, and all other averages of imports and exports divided by it. The indices are shown in boxes in the figure below.



Source: CSO & CSA Abstracts

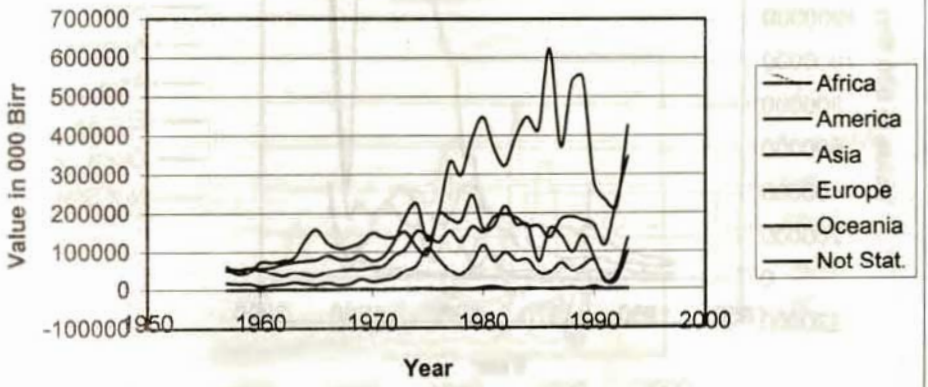
The arrows are not strictly proportional since the differences in value are great. Nonetheless, they reflect the relative importance of the values. The indices are given to help the reader appreciate the exact relationships.

Exports by continent

Ethiopia exports varying amount of commodities to five continents, namely Africa, N. America, Asia, Europe and Oceania. The only continent that does not trade with Ethiopia is S. America. Possible explanations for this are its colonial history and its agricultural products dominated trade. For instance, complementarity between Ethiopia and Brazil is limited since both depend considerably on coffee export. The most important continent of destination of Ethiopian commodities is Europe, ranking first in 21 out of 37 years considered here. The second most important destination is N. America, almost solely the USA. It ranked first 13 times in 37 years. N. America acted as the most important destination from 1960 to 1972. The third most

important destination is Asia. Africa has been a distant fourth important destination, importing most of the time less than 10 percent of the total export of Ethiopia. Its maximum purchase was in 1975 when it reached the 23 percent mark. It was only five times that it purchased more than 10 percent but still less than 15 percent of the value of Ethiopia's export (see Fig. 3).

Fig. 3: ETHIOPIA: Exports by Continent of Destination



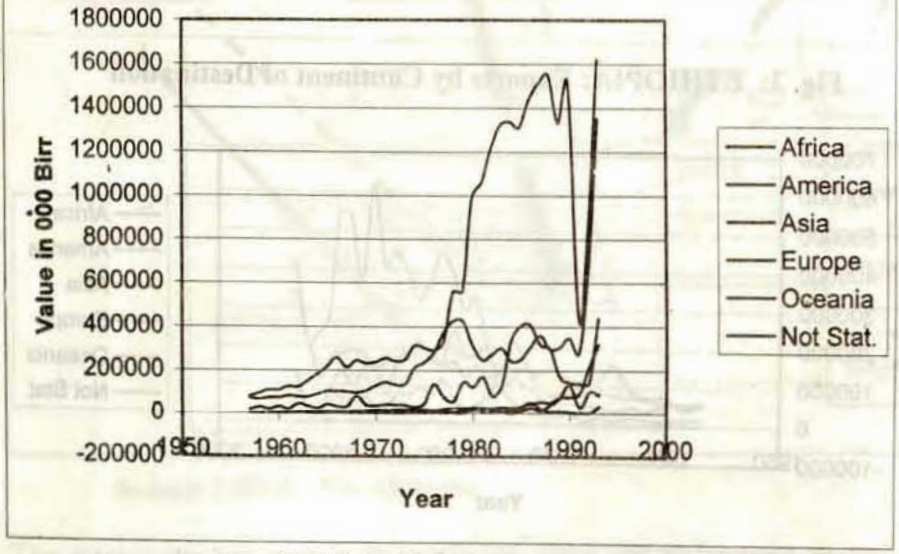
Source: Compiled from CSO/CSA Statistical Abstracts

Ethiopia's imports by continent

The origin of Ethiopia's imports manifests a similar pattern as her export destinations. The difference is that the ranking is more consistent over time in the case of imports than in the case of exports. Thus, Europe is the number one supplier of Ethiopian import commodities by value throughout the period considered. N. America, which generally ranked the second most important destination, is third important supplier, except four times, in 1983,1984,1986, and 1988 during which years it assumed the second position. The continent of Asia, which generally ranked third as destination of Ethiopia's export trade, is now undisputed second. Africa, though ranked fourth, it was a distant fourth as it shared only less than 5 percent, except

three times during which it attained a maximum of 10 percent. This is one-third of the maximum level it attained as supplier of commodities.

Fig. 4: ETHIOPIA: Imports by Continent of Origin



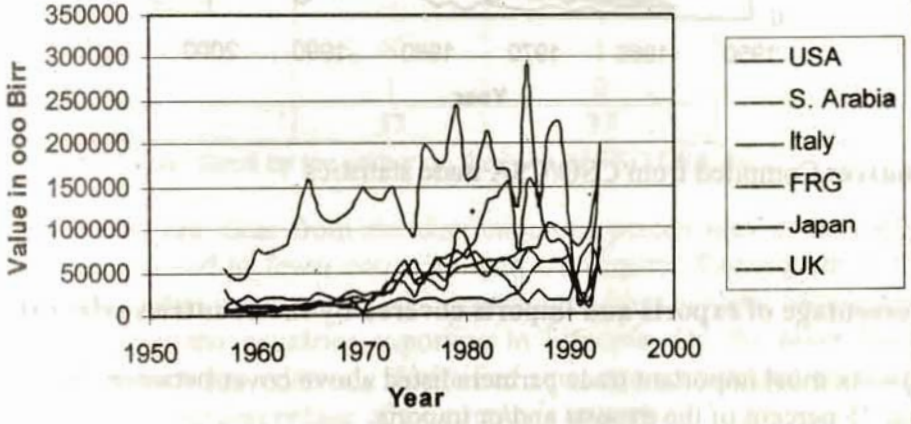
Source: Compiled from CSO/CSA Statistical Abstracts

Some most important countries of destination of Ethiopia's exports

We have shown above Ethiopia's exports by continent of destination. Naturally, all the countries in the continents cited are not equally important. In fact, many countries are not trading with Ethiopia at all. We shall see here the most important countries of Ethiopian commodity importers selected on the basis of: a) ranking high in the value of goods imported during the period under consideration, and b) on the continuity/stability of their partnership in the external trade. Thus, the USSR, which was important during the period 1975 to 1990 is omitted since it occupied a very low profile at other times.

The most important importers of Ethiopian goods were the USA, FRG, Japan, Italy, Saudi Arabia, and the United Kingdom. European countries are more frequently represented than others. In Asia, Japan and Saudi Arabia are important (see Fig. 5). On the basis of five-year averages, the countries selected account between 46 percent and 72 percent of the total export by value.

Fig. 5: ETHIOPIA: Exports to Six Most Important Trade Partners

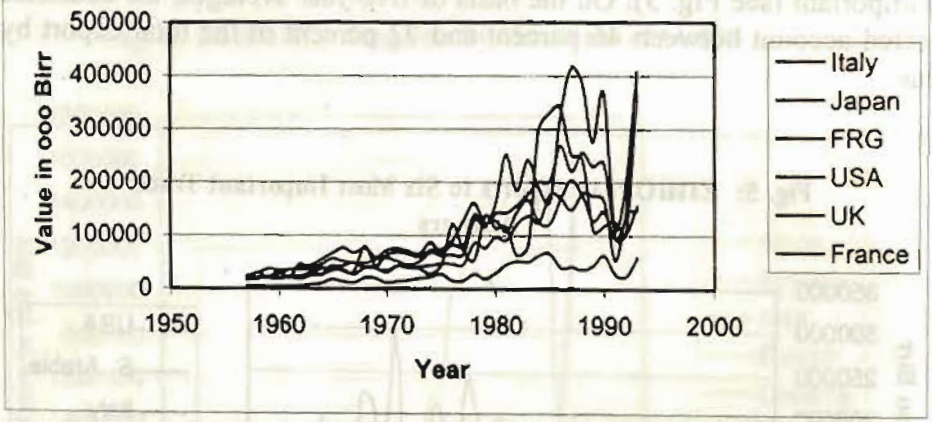


Source: Compiled from CSO/CSA Data

The most important countries of origin of Ethiopian imports

Here again, the most important countries of origin of imports were selected on the same criteria as the most important destinations above. Similar pattern is displayed except for two differences with the trade partners shown in the destinations above. The observations are: first, more European countries are represented, and second, the ranking by importance is noticeably altered. Italy, FRG, USA, Japan, the UK and France rank from first to sixth (see figure 6). Saudi Arabia, which was an important importer of Ethiopian commodities, does not appear in the list of the six most important exporters of goods to Ethiopia.

Fig. 6: ETHIOPIA: Imports from Six Most Important Trade Partners



Source: Compiled from CSO/CSA trade statistics

Percentage of exports and imports covered by the countries selected

The six most important trade partners listed above cover between 36 percent and 75 percent of the exports and/or imports.

Table 2: Percentage of trade covered by six most important trade partners.

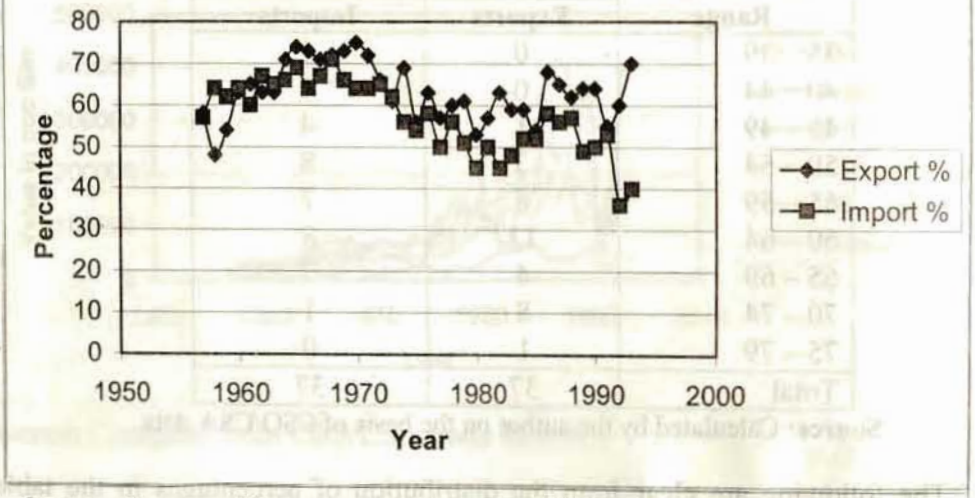
Percentage Range	Number of countries in the range	
	Exports	**Imports**
35 – 39	0	1
40 – 44	0	1
45 – 49	1	4
50 – 54	3	8
55 – 59	8	7
60 – 64	12	8
65 – 69	4	7
70 – 74	8	1
75 – 79	1	0
Total	37	37

Source: Calculated by the author on the basis of CSO/CSA data

The following are clear from the distribution of percentages in the table. Exports are limited to fewer countries than are imports. Consequently, the six most important importers of Ethiopian commodities account for a higher percentage than the countries exporting to Ethiopia. On the other hand, Ethiopian imports are relatively diversified since the six selected countries account for a lower percentage of the country's imports.

Figure 7 represents the percentage of imports and exports covered by the six most important countries by year.

Fig. 7: Percentage of Imports & Exports Covered by Six Most Important Trade Partners



Source: Computed from CSO/CSA trade statistics

Degree of geographic diversification

The discussion above on trade partners leads us to answer the question of how diversified is our geography of trade. On the assumption that high degree of diversification is a mechanism of avoiding international trade risk, the degree of diversification of trade partners is calculated using Gibbs-Martin index of diversification. The model is:

$$ID = 1 - \frac{\sum X^2}{(\sum X)^2}$$

X represents the value of imports or exports from and to the countries considered. An ID of 0 indicates absolute concentration (meaning a single source or destination), while 1.00 indicates absolute diversification (Hammond et al, 1974).

The top ten trade partners for the years 1960 to 1993, at intervals of five Years, except 1993, were considered. The ten most important trade partners accounted, among them, for 73 percent to 84 percent of the exports, and 69 percent to 84 percent of the imports. Table 3 shows the indices calculated.

Table 3: Gibbs-Martin Index of Diversification

Year	1960	1965	1970	1975	1980	1985	1990	1993
Exports	0.7089	0.5532	0.6283	0.8460	0.8638	0.8919	0.8524	0.8374
Imports	0.8671	0.8519	0.8517	0.8696	0.8530	0.8564	0.8544	0.8454

Source: Calculated by the author

The following can be generalized from the table. First, the destination and origin of the international trade of Ethiopia is sufficiently diversified and there is no imminent danger that can arise from concentration. Second, the fact that destinations are less diversified than origins of commodities, should be noted. With regard to exports, there was a gradual improvement in destination diversification between 1965 and 1985 though a slight decline is observed in 1990, possibly due to political problems on the eve of the fall of the "socialist" regime.

Commodity structure of Ethiopia's international trade

While Ethiopia's export commodities are dominated by primary goods her imports are conversely dominated by manufactured goods. The following table represents the commodity composition of the international trade for selected years.

Table 4: Commodity composition of Ethiopia's international trade

A - Exports - %							
Commodity group	**1993**	**1990**	**1985**	**1980**	**1975**	**1970**	**1965**
Food & live animals	68.76	61.37	69.63	71.85	63.83	75.72	80.26
Beverages & tobacco	0.01	0.41	0.05	0.00	0.01	0.00	0.00
Crude materials, inedible except fuel	26.18	25.74	19.16	19.99	30.06	20.89	18.99
Mineral fuels, lubricants, & related m.	3.98	6.91	9.82	7.42	3.34	1.20	0.00
Animal, vegetable oils, fats, waxes	0.43	0.24	0.23	0.48	0.57	0.50	0.51
Chemicals & related products, NES	0.09	2.02	0.58	0.05	0.45	0.55	0.02
Manufactured goods classified by m.	0.05	1.49	0.10	0.07	0.58	0.81	0.08
Machinery &transport equipment	0.00	0.01	0.00	0.01	0.00	0.00	0.00
Miscellaneous manufactured articles	0.50	1.70	0.24	0.11	0.34	0.14	0.02
Commodities & transactions not clas.	0.00	0.11	0.20	0.04	0.82	0.14	0.12
Total	99.55	100.00	100.01	100.02	100.04	99.95	100.00

B – Imports - %							
Commodity group	**1993**	**1990**	**1985**	**1980**	**1975**	**1970**	**1965**
Food & live animals	12.19	12.06	24.46	6.09	6.24	7.32	5.30
Beverages & tobacco	0.50	0.95	0.41	1.03	1.42	1.27	1.31
Crude materials, inedible except fuel	1.50	3.20	3.30	2.86	4.01	2.86	4.82
Mineral fuels, lubricants, & related m.	21.62	11.90	14.80	24.75	17.45	7.82	6.37
Animal, vegetable oils, fats, waxes	3.37	1.79	4.84	0.74	0.37	0.59	0.18
Chemicals & related products, NES	13.77	10.11	7.35	15.03	18.46	11.67	7.21
Manufactured goods classified by m.	16.01	16.07	13.48	17.11	18.71	25.44	25.30
Machinery & transport equipment	27.09	39.70	28.74	27.90	28.51	34.25	37.40
Miscellaneous manufactured articles	3.94	4.21	2.61	4.04	7.38	8.52	11.37
Commodities & transactions not clas.	0.00	0.00	0.00	0.40	0.48	0.26	0.74
Total	99.99	99.99	99.99	100.01	100.03	100.00	100.0

Source: Calculated by the author on data from CSO/CSA

The commodity composition of the exports and imports of Ethiopia shows the following characteristics. The exports are limited to a fewer commodities than are the imports which are relatively diversified. For the years examined, food and live animals (primary agricultural products) accounted for 60 percent to 80 percent of the total export. Another non-industrial product, inedible crude materials excluding fuels, ranks second. The two together constitute between 85 and 99 percent of the total exports. Thus, Ethiopia's exports are dominated by two primary products groups, namely food and live animals and crude materials, inedible except fuel.

On the other hand, the most important import commodity groups are manufactured goods. The group, machinery and transport equipment ranks first accounting for 27 to 37 percent. The other important groups of commodities are manufactured goods classified chiefly by material, and chemicals and related products. The three groups, among them, account for between 55 and 79 percent of the total annual import. Another important commodity that is gaining importance is mineral fuels, lubricants, and related materials. Therefore, it is obvious that Ethiopia's imports are predominantly manufactured goods. One should note, however, while only two export commodity groups account for 85 percent to 90 percent, four import commodity groups account only for less than 80 percent.

The Gibbs-Martin Index of diversification explained above confirms the observation made.

Table 5: Gibbs-Martin Index of Diversification of commodities traded

Year	1965	1970	1975	1980	1985	1990	1993
Exports	0.3207	0.3830	0.5011	0.5625	0.4691	0.5513	0.4564
Imports	0.7685	0.7845	0.8240	0.8026	0.8079	0.7743	0.8172

Source: Calculated on the basis of CSO/CSA data

The diversification of the commodity structure of the international trade of Ethiopia manifests a different pattern to that of the geographic diversification discussed above. The exports are concentrated on a few commodity groups as described earlier. This concentration makes the country vulnerable to international trade risk. This year (2002) demonstrates the case; the fall of coffee price on the international market caused alarm in Ethiopia. Although a gradual improvement towards diversification of exports between 1965 and 1980 can be observed in the table, the situation after that is rather irregular. Ethiopia's imports show relative diversification.

The question one may raise is what are the consequences of the export and import commodity composition we have observed above? First, the value of

primary products is generally low. Since Ethiopia's export is predominantly primary product – chiefly agricultural products - the price she gets is relatively small, and consequently, insufficient to cover the cost of the imports. Second, primary products are the most affected by natural factors such as climate, pest, etc. They suffer damage more frequently than do industrial products. The loss of crops and animals as a result of shortage or unreliability of rainfall, and crop and animal pests, is well documented. The third negative consequence is that primary biotic products have relatively low 'income elasticity of demand' (Todaro, 1985). Therefore, the consumption of primary products is not proportionately increased to rising living standard.

On the other hand, industrial commodities do not face the limitations listed above to the same degree as primary products do. Over the last fifty years they have experienced continuously rising prices. Their liability to natural hazard is low compared with primary products since they are produced in a managed or controlled environment. Industrial products also have higher income elasticity of demand relative to primary products. Todaro (1985) states that an increase of 1 percent in developed country income will normally raise their import of foodstuffs by 0.6 percent, agricultural raw materials such as rubber and vegetable oils by 0.5 percent, petroleum products and other fuels by 2.4 percent, and manufacturers by about 1.9 percent (p: 370)

SOME FACTORS DETERMINING VOLUME AND ORIENTATION OF ETHIOPIA'S INTERNATIONAL TRADE

Trade theories, policies, and political conditions influence the volume of commodity traded, geographic trade orientation, and trade partner selection.

Influence of trade theories

We have cited three groups of trade theories above. One group explains why trade takes place between two countries or regions. This category of factors needs no demonstration since it is a foregone conclusion. Countries are

trading in spite of some opposition to trade by those who consider it a means of exploitation of one region or one country by another. The remaining two categories help to explain the volume of trade and how trade partners are selected. It is these categories of trade principles that are discussed here - under.

As briefly discussed and represented in the graphs, Ethiopia's international trade partner continents - Europe, N. America, Asia, Africa, and Oceania – occupy different positions of importance. One reason for this is the nature of Ethiopia's international trade commodity composition. As we have seen earlier, Ethiopia's exports are dominated by primary goods. Hence, industrialized Europe and N. America provide better complementarity than the continents of Africa, Asia, and S. America. Thus, the two continents rank first and second as regards Ethiopia's export trade, and first and third regarding Ethiopia's imports. In addition, Europe and N. America have better infrastructure such as transportation network and financial institutions to facilitate international trade. Asia, which ranks second as exporter to and third as importer from Ethiopia, possesses two advantages. Firstly, the Middle East is close to Ethiopia which is located in the Horn of Africa, at about 100 km. from Yemen. China, India and Japan, the other important Asiatic trade partners are relatively easily accessible over the sea. Secondly, the Middle East does not produce sufficient agricultural products such as beef, which Ethiopia can supply. The fact that Asia's industrial products such as textiles are relatively cheaper and better adapted to Ethiopia's needs is another explanation. Africa, the continent where Ethiopia is actually located, is a distant fourth both as exporter to and importer from Ethiopia. Africa is beset by three trade obstacles. In the first place, Africa is mainly a primary commodity producer as Ethiopia is, reducing greatly the complementarity requirement of trade principles. Secondly, the underdeveloped nature of transportation and institutional structure did not encourage exchange between Ethiopia and the rest of Africa. Thirdly, the fact that African international trade is closely related to colonial history directs Africa's trade away from Ethiopia.

Thus, the theory of comparative advantage anchored in factor endowment theory, and product differentiation theory work in conjunction to determine the direction of trade and types and volume of goods traded.

Impact of trade policies

We have alluded to trade policies under 1.3 above. The impact of the protectionist trade policies of the Imperial and Derg regimes limited the volume of foreign trade for the purpose of maintaining at a sustainable level the negative balance of trade, though towards the end of the Derg regime this has not been possible since financing the civil war required more imports of military armament. Of course, narrowing the negative balance of trade could have also been done by developing the factors of production, i.e., enhancing natural and cultural factor endowment. This has not been done then and to date.

The impact of the economic reform of the EPRDF regime starting in 1992 and continuing still, has not achieved the anticipated positive result. Imports have continued to grow at faster rates than exports resulting in a deteriorating balance of trade. Trade statistics show and it is recognized by MEDAC that the trade deficit has been in a general state of expansion since 1995/96 owing to the increase in imports much faster than export earnings (MEDAC 1999: 70). Positive results are recorded only in the private participation as more and more foreign trade is handled by the private sector.

Why have the economic reforms fallen short of their anticipated result as regards foreign trade? A possible answer is that either the reform did not identify the real issues or there are other issues in addition to the ones that are identified or the right remedial steps are not taken. One concrete fact is the prevalence of undeveloped factors of production which limit productivity and consequently volume of product. The generation of primary products – agricultural and mineral - for export is still based on natural conditions that are only easily exploitable. Such natural conditions are subject to high variability in ecological conditions that result in lowering considerably or destroying completely primary products. The failure of

crops and the death of livestock due to drought and human conditions that we experience almost every year now, in one or the other part of the country, are testimonies.

The agricultural sector on which more than 80 percent of the productive force depends has failed to support at subsistence level even the population that is directly engaged in it. Consequently, every year, around 4 million persons depend on food aid. In spite of the fact that the agricultural sector contributes the lion's share of the export earnings, its contribution is not growing at a sufficient rate to finance the country's imports. We are unable to generate sufficient agricultural surplus, of animal or plant origin, for export. In fact, food import by year oscillated between 14 percent and 18 percent of the total export between 1991/92 and 1995/96. In addition, some instability in the agricultural export commodities is observable; oil seeds that were important at one time dwindled to a very low level around 1990. Whether coffee shall continue to maintain its dominant position in the future is uncertain since, in addition to natural ecological hazards, it faces stiff competition from South American and African producers.

The other natural resource is minerals – even more underdeveloped than the agricultural sector. We have not been able to provide the necessary investment capital, local or foreign, to develop this sector. Local sources of fund for developing the mining sector is too little while with regard to foreign sources the lack of political trust is often cited as a reason for no or limited participation. Consequently, the contribution of the mining sector to the export trade is generally less than one percent per annum.

The industrial sector that could have contributed to the diversification of the export items seems to have not benefited much from the liberalization policy. Its contribution to the GDP as well as to the external trade has actually declined over the past few years. The country is unable to benefit from the free trade privilege it has been accorded by the USA and EU. At forums where high government officials including the prime minister participate, members of the business community forcefully express the need for some sort of protection for the infant local industry and trade enterprises. It appears that the government is sandwiched between local economic

realities on one hand, and the requirements of international financial institutions such as IMF and the World Bank that have strong economic muscles on the other hand. Thus, the response to the demands of the business community is to be competitive in the international trade through improvement of product quality and development of management skills. Perhaps, a tenable position may be to accommodate some of the demands of the business community while at the same time to help them raise their management and productive skills.

Political factors

Political factors exert impact at both general and particular case levels, and at the origin and destination of trade.

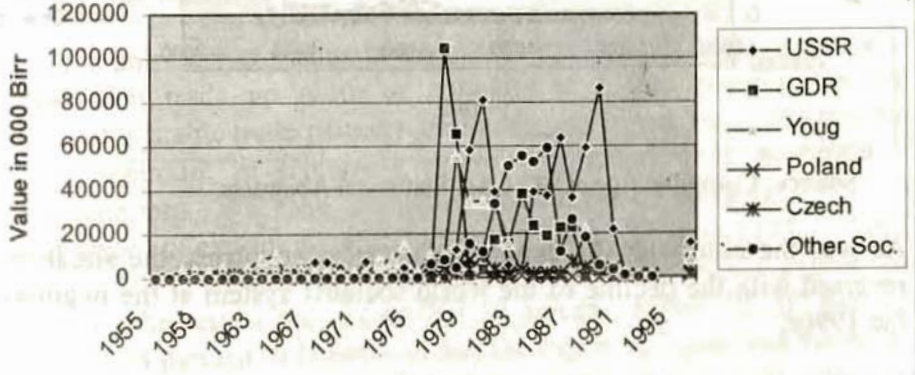
Impact of political factors on general imports and exports

On general import-export level, the political impacts that are visible resulted from the two uncertainties the country faced in 1974 and 1990-91 due to regime changes by means of force. Since the 1974 change was gradual and imperceptible, its impact on foreign trade though visible, was not conspicuous. In 1975, imports remained at about the same level as the previous year, while exports declined from 556 million to 478 million Birr. On the other hand, the 1990-91 impact was conspicuous as the preceding graphs show. For instance, as shown in Figure 1, imports declined from 2,228 million in 1990 to 977 million Birr in 1991, a decline by more than one-half of the previous year value. As known, the regime changes were not institutional. Consequently, they disrupted law and order, existing economic infrastructure as well as introducing drastic political ideologies. Hence, under such conditions international trade cannot thrive. Trade increased again to 1,988 million in 1992 and to 3,852 million Birr in 1993 as the political turmoil subsided. Exports declined from 1,935 million in 1989 to 614 million in 1990 and 390 million Birr in 1991. They climbed to 504 million in 1992 and 1,007 million Birr in 1993. All the graphs show clearly the depression in volume of trade around 1990.

Impact of political factors on trade orientation

The most obvious impact of both 1974 and 1991 political upheaval on Ethiopia's international trade was on trade orientation. A new geography of trade and a new set of trade partners came into being. The Provisional Military Administrative Council (PMAC), under pressure from the left oriented intellectuals, accepted socialism as its social, economic, and political ideology. This resulted in the re-orientation of Ethiopia's international trade towards the socialist camp. The following graph demonstrates the sudden surge of the country's export to the socialist countries between 1974 and 1990-91. However, the reverse to previous status was more the result of the international political climate rather than the internal Ethiopian political conditions.

Fig. 8: Exports to Socialist Countries



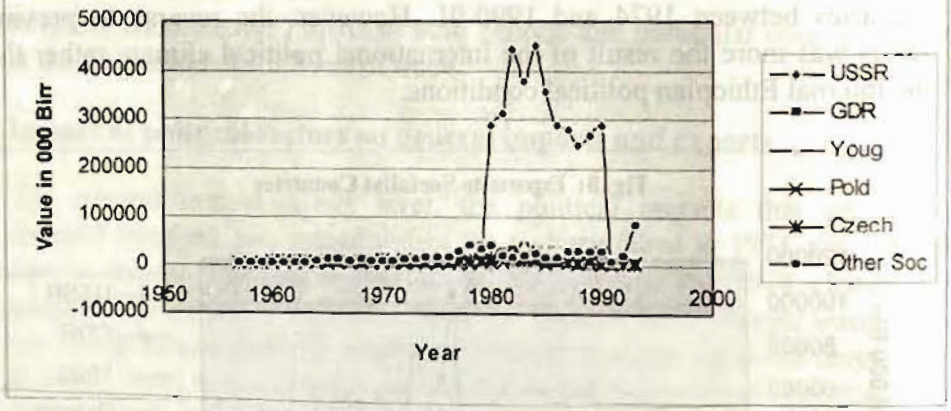
Source: Compiled from CSO/CSA Statistical Abstracts

It is conspicuously visible that Ethiopia's exports to socialist countries before 1975 were low. Between 1975 and 1991, when the country was following the socialist ideology, trade with socialist countries grew significantly. It slumped down around 1990 when the socialist camp

disintegrated and a regime change in Ethiopia greatly modified her political ideology.

A similar pattern is visible in the imports from socialist countries with the major difference that one of the socialist countries, the USSR, dominated all others though there was an increase in imports from all socialist countries (see the figure below)

Fig. 9: Imports from Socialist Countries



Source: Compiled from CSO/CSA Statistical Abstracts.

As was the case with the exports to socialist countries, the situation was reversed with the decline of the world socialist system at the beginning of the 1990s.

Impact of specific case political factors on trade orientation

Here are given impacts of political changes on trade in specific countries, or the reactions by specific countries to political situations in Ethiopia. A regime change in a country trading with Ethiopia affects trade at least temporarily. For example, the absence of central government in Somalia made it impossible to manage trade with that country. For the same reason, trade between Ethiopia and Eritrea during the two-year war and after is completely interrupted. Iran has been one of the countries of origin of

Ethiopia's imports until 1976. Import from Iran slumped from a high of 49.7 million Birr in 1975 (and a ten year annual average of 26.6 million Birr between 1966 and 1975) to a low of 6.2 million in 1976 (and a ten year annual average of 18 million between 1976 and 1985). If the import of the anomalous year of 1978 is excluded, the annual average will go down to 7.9 million Birr. Since then, Iran is an insignificant origin of Ethiopia's imports. The annual average for 1985 to 1993 was 887.2 thousand only. Neither the Shah before he was deposed in 1979, nor the Islamic revolutionary government that replaced him has been sympathetic to the socialist government in Ethiopia. On the other hand, under pressure of Arab governments through the OAU, diplomatic relation with Israel was terminated in 1972. However, trade remained high until 1987 under cover since Israel was an important supplier of arms to the PDRE. Hence, the specific impact of political factors on trade is determined by the cause underlying the severance of political relations.

Unstable trade partners

There are countries that engage in trade with Ethiopia for a given period of time and then trade no more or continue at highly reduced volume. Examples of unstable trade partners are Sudan and Egypt, two countries that are more important as Ethiopia's export destinations than as origin of Ethiopia's imports. We have calculated coefficient of variation (σ n-1 X 100 over mean) of exports to these two countries for 37 years (1957 – 1993) and for the USA, another important destination of Ethiopia's export, for comparison. The results are: Egypt 201.39 percent, Sudan 122.09 percent, and USA 44.84 percent. It is obvious that the export to Egypt and Sudan are considerably unstable compared with those of the USA. In fact, there are years during which there are no exports to these countries while at some other years the two countries rank among the 15 most important destinations of Ethiopia's export.

Non-reciprocating trade partners

Some countries export to Ethiopia without buying a similar amount of commodities from Ethiopia, while some others do import from but do not export to Ethiopia. For instance, Ethiopia's balance of trade with China has remained negative since 1964. Moreover, 21 years out of thirty, China's import from Ethiopia was zero or too insignificant to be recorded. Usually countries may not care if others are not exporting to them, but they do when others do not import their goods. India, and some North and Central European countries have similar trade relations as China has with Ethiopia.

SUMMARY AND ISSUES

From the foregoing discussion, the following can be extracted.

Summary

The volume and value of the international trade of Ethiopia has increased during the period considered here. For instance, the value of exports has increased at an average annual rate of more than 10 percent and imports more than 50 percent between 1957 and 1993. The increases are due to increase in the volume of the international trade and inflation. The unequal increase of imports and exports causes alarm.

The geography of trade is oriented towards the continents of Europe, N. America (chiefly the USA), Asia and Africa. Oceania has only nominal trade while S. America is not trading with Ethiopia at all. Europe supplies most of Ethiopia's imports and buys most of Ethiopia's exports. N. America buys more from and supplies less to Ethiopia as does Asia. The home continent, Africa is a distant fourth partner in both exports and imports.

The most important trade partner countries are the USA, FRG, Italy, Japan, Saudi Arabia, the UK and France. Some are important as exporters of goods to Ethiopia and importers of goods from Ethiopia though not to the same degree. Others are important as exporters to Ethiopia (France), and

importers from Ethiopia (Saudi Arabia). These trading partners cover between 35 percent and 75 percent of Ethiopia's exports or imports.

The commodity composition of the exports of Ethiopia is made up of a few primary (chiefly agricultural) products. Primary agricultural products are noted for their relatively low prices, unreliable market, and low elasticity. Import goods have diversified structure.

Ethiopia's international trade is affected by a host of natural and human factors. As most of the exports are constituted of agricultural products they are affected by ecological factors. An adverse climatic effect on coffee greatly lowers the import earning of the country. Political factors affect both the volume of commodities traded and the geographic origin and destination of the international trade. A very visible effect of political nature is what happened between 1974 and 1991.

Government policies naturally affect various aspects of international trade. The current trade policies have not produced the desired effects.

Issues

There are a number of issues that need the attention of all those concerned with the international trade of the country.

One important issue is the growing gap between imports and exports. A country that consumes more than it produces is obviously on a wrong track. Strategies to narrow the gap in the short term need to be designed, with a long-term objective to reverse the situation.

A second issue concerns the dependence on few agricultural products as foreign exchange earning. The situation of the international trade is where one agricultural commodity accounts mostly for about 60 percent of the foreign exchange and where four primary products account for about 90 percent. Diversification of the elements of the commodity composition is a devoir that needs immediate attention. This involves vertical integration of production where primary products are processed to raise their value. This again requires the development of our factors of production.

A third issue relates to international peace and security as well as the separation of trade from political ideology. Strategies to abate impacts of lack of peace and security in regions outside Ethiopia need to be worked out for any eventuality. One needs to avoid to link too closely political ideology and trade to prevent the occurrence of the same or similar situations as those that occurred between 1974 and 1991.

A fourth issue relates to matching imports and exports between Ethiopia and her trading partners. Some countries sell their products without a reciprocate purchases. Negotiations on these issues with the countries concerned are essential.

Open trades policy is the fifth issue that should be reconsidered. It may be necessary to apply policies/instruments of protection on selected items of import to the extent that other countries paying allegiance to free trade are doing in their own countries. Of course, there is no doubt that we improve our products qualitatively and quantitatively and develop our management capacity to benefit from the international trade. Controlling illicit trade is another issue.

REFERENCES

Bhatta, S.D., 2002, Has the Increase in Worldwide Openness to Trade Worsened Global Income Inequality? Papers in Regional Science. 81: 177 – 196.

Befekadu Degefe., 1991, The exchange rate of the Birr, *Ethiopian Journal of Development Research,* 13, 1: 1-34.

Befekadu Degefe and Berhanu Nega (eds), 1999/200, *Annual Report on the Ethiopian Economy.* Addis Ababa: The Ethiopian Economic Association.

----------, 2000/2001, *Second Annual Report on the Ethiopian Economy.* Addis Ababa: The Ethiopian Economic Association.

CSO. Ethiopia: Statistical Abstract, 1963, 1965, 1967/68, 1970,1972, 1975, 1977, 1980, 1983, and 1985.

CSA. Ethiopia: Statistical Abstract, 1986, 1988,1990, 1992 and 1995.

Emanuel, A., 1972, Unequal exchange: A Study of Imperialism of Trade. New York: Monthly Review Press.

Hammond, R. and McCullagh, P. S., 1974, *Quantitative Techniques in Geography: An Introduction.* Oxford: Clarendon Press.

Hanink, D. M., 1994, *The International Economy: A Geographical Perspective.* New York: John Wiley & Sons Inc.

Gebeyehu Alemneh., 1983, "Determinants of Export Growth (1962–1973)", *Ethiopian Journal of Development Research*, 5 –7, 1: 35-52.

Kay, G., 1976, *Development and Underdevelopment: A Marxist Analysis.* London : The Macmillan Press Ltd.

Ministry of Economic Development and Cooperation (MEDAC), 1999, *Survey of the Ethiopian Economy,* Addis Ababa.

Reimer, R., 1975, "Currency fluctuations and their impact on the Ethiopian balance of trade", *Ethiopian Journal of Development Research*, 2, 1: 33-42.

Samuelson, P. A. & Nordhaus, W. D., 1989, *Economics*. 13th ed. New York: McGraw-Hill Book Company.

Todaro, M.P., 1985, *Economic Development in the Third World*, 3rd ed. London: Longman.

Ullman, E. L, 1980, *Geography as Spatial Interaction*. Seattle : University of Washington Press.