

Ethiopia: macroeconomic and trade profile

Opportunities and challenges towards implementation of AfCFTA

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Key messages

- Ethiopia has been one of the fastest growing economies in the world and the fastest in Africa, with an annual growth rate of 9.1% over the past decade, up until fiscal year (FY) 2019/20. Amid the Covid-19 and conflict in Tigray, growth of the gross domestic product (GDP) slowed to 2% in FY2020/21. GDP is forecast to grow by 4.3% in FY2021/22.
- The conflict in Tigray is spreading. Estimates suggest that the conflict may contract GDP by 1% to 8% at the worst-case scenario. On 1 January 2022, the United States (US) terminated Ethiopia's access to the African Growth and Opportunity Act (AGOA) in view of violations to internationally recognised human rights.
- Ethiopia has relatively lower trade openness (30% of GDP) compared to sub-Saharan African countries overall (43% of GDP) as of 2020. Before Covid-19, Ethiopian Airlines' (mostly exports of services) operating revenue alone was higher (\$4.1 billion) than goods exports (\$2.7 billion) as of FY2018/19.
- Coffee, oil seeds and chat dominate Ethiopian exports, but there is room to support exporting of t-shirts, footwear, bakers' wares, processed vegetables and goat meat, given the increasing world demand and Ethiopia's efficiency on these products.
- While Ethiopia was able to attract FDI (29% of GDP as of 2020), the country is still at a nascent stage of integrating in African trade. Intra-African goods trade comprised 10% of Ethiopia's total trade as of FY2019/20. It is not yet a member of the World Trade Organization (WTO), nor of the Common Market of Eastern and Southern Africa (COMESA) free trade area (FTA).
- Ethiopia is yet to trade under the African Continent Free Trade Area (AfCFTA) and would benefit from implementing a national AfCFTA strategy. Trade and investment opportunities may arise following Ethiopia's modernisation of commerce- and investment-related laws, and targeted reforms to address persistent challenges to private sector participation and the business environment.



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About this publication

This paper aims to inform relevant stakeholders, including the private sector and non-AfCFTA experts, on Ethiopia's current economic situation and implementation of AfCFTA. The paper is structured as follows. Section 1 discusses the recent socioeconomic development in Ethiopia, followed by the country's trade landscape and business environment (Section 2). Section 3 presents Ethiopia's intra-African trade performance and status of AfCFTA implementation. The final section summarises the paper's analysis through a SWOT (strengths, weaknesses, opportunities and threats) presentation.

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Disclaimer: The content of this publication has been produced rapidly to provide early ideas and analysis on a given theme. It has been cross-read and edited but the usual rigorous processes have not necessarily been applied.

About the author

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1 Recent socioeconomic developments

Ethiopia is the second most populous country in Africa with 115 million¹ people and is a development success on several measures (Table 1). The country has been one of the fastest growing economies in the world and the fastest in Africa, with an annual growth rate of 9.1% over the decade to FY2019/2020² (WDI, 2021; World Bank, 2021a). Ethiopia has been exhibiting economic transformation. The share of industry (including the construction sector) to total value added has increased from 9.7% in 2011 to 23.1% in 2020, while the share of the agricultural sector declined from 41.2% to 35.5% during the same period.³ The growth was accompanied by poverty reduction, with the share of population living on less than \$1.90 a day (2011 PPP) declining by 8 percentage points to 30.8% between 2004 and 2015. The economic and development gains have been influenced by the shift in government strategy in 2010 from agricultural-led to manufacturing-led growth (see Haile, 2018; MoF,⁴ 2010).

However, the economic growth Ethiopia has built in past decades is under threat by the Covid-19 pandemic and the growing conflict in Tigray region. GDP growth slowed to 6.1% and further to 2.4% in FY2019/20 and FY2020/21, respectively (World Bank, 2021b). Estimates by Papadavid and te Velde (2021) suggest that the conflict in northern Ethiopia could lead to a decline of GDP by 1% under a scenario where the conflict is contained in the region, and by 8% if the conflict escalates inside and beyond Ethiopia.

The government's Covid-9 fiscal measures worth \$3 billion (or 3.1% of GDP)⁵ contributed to the slight widening of public deficit to 2.8% of GDP in FY2019/20 from 2.5% of GDP previously (Table 2). Public deficit was augmented by increased external grants and domestic borrowing (including from the central bank) (ibid.). More recently in June 2021, the government also reported spending 100 billion birr (approximately \$2.3 billion) for rehabilitation and humanitarian works following conflict in Tigray (MFA, 2021), which may put pressure on fiscal accounts. Due to the

¹ Based on WDI (2021) data.

² Author's computations based on WDI (2021) data. Average annual growth rates between 2011 and 2020 in 49 other African countries range from -3% in Equatorial Guinea to 9.1% in Ethiopia. Annual rate for Ethiopia refers to the fiscal year which begins in July.

³ Based on WDI (2021) data.

⁴ The Ministry of Finance (MoF) is formerly known as the Ministry of Finance and Economic Development (MoFED) and then as Ministry of Finance and Economic Cooperation (MoFEC). The powers and duties given to MoFEC by the provisions of other earlier laws have been vested in the MoF since 2018, based on Proclamation No.1097/2018.

⁵ Based on IMF (2021b) estimates based on fiscal responses announced between January 2020 and September 2021. Packages in the database have implementation coverage from 2020, 2021 and beyond.

uncertainties surrounding the pandemic, combined with vulnerabilities around debt-servicing needs, overvalued exchange rates and small export base, Ethiopia has been classified as at high risk of debt distress by the World Bank and IMF (2020).

The latest World Bank (2021) forecasts indicate a rebound of GDP growth by 4.3% in FY2021/22. However, there are significant risks to this growth outlook, including the evolution of the pandemic, locust infestations, and the fragility of the conflict situation in Tigray region. Growth may also be dampened by escalating inflation, which reached 30.4% as of August 2021 (IMF, 2021a; NBE, 2021b; Marks, 2021). Despite this, the government projects that, with the implementation of its national development plan, the country could grow annually by 9.2% in the medium term from FY2020/21 to 2024/2025 (PDC, 2021).

Table 1 Ethiopia country facts and social indicators

Capital: Addis Ababa			
Geographical size: 1.1 million km ² ; landlocked in the Horn of Africa; shares border with Somalia, Djibouti, Kenya, Eritrea, Sudan and South Sudan			
Languages: Amharic as the federal language; Oromiffa and Tigrigna are widely spoken			
Currency; exchange rate: Ethiopian birr (ETB); ETB42.5 per US\$1, weighted average official exchange rate as of fourth quarter of FY2020/21 (April–June 2021)			
	2000	2010	2020/latest
Population (million)	62.2	87.6	115
Dependency ratio (%) ¹	92.1	86.8	70.6
Life expectancy (years)	51.9	61.6	66.6 ²
Mean years of schooling	1.5	2.3	2.9 ³
GNI per capita (constant 2017 PPP\$)	726	1,257	2,277
Poverty rate (% of population living on less than \$1.9 a day, 2011PPP)	57.8 ⁴	35.6	25.9 ⁵
Unemployment rate (%)	3.5	2.3	2.8
Gender inequality index ⁶	0.622 ⁷	0.587	0.517 ²
Human development index ⁸	0.292	0.421	0.485 ²

Notes: 1 dependency ratio of the young (0–14 years old) to the working-age (15–64 years old) population; 2 as of 2019; 3 as of 2019 or latest; 4 as of 1999; 5 estimate; 6 higher score = higher gender inequality; 7 as of 2005; 8 higher score = better human development; GNI = gross national income; PPP = purchasing power parity.

Sources: Ethiopian Embassy in Belgium (2021); Ethiopian Embassy in London (2017); NBE (2021b); World Bank (2021b); WDI (2021); UNDP (2021).

Table 2 Selected macroeconomic performance indicators and forecast

	FY 2018/ 2019	FY 2019/ 2020	FY2020/ 2021e	FY2021/ 2022f	FY2022/ 2023f
Real GDP (% growth)	9.0	6.1	2.4	4.3	6.5
Consumer prices (% growth)	12.5	19.9	20.2	21.9	10.8
Fiscal balance (% of GDP)	-2.5	-2.8	-3.0	-2.6	-2.0
Public debt (% of GDP)	57.3	56.5	57.6	55.0	51.2
Current account balance (% of GDP)	-5.1	-4.1	-2.5	-3.3	-3.8
Exports of goods and services (% growth)	3.0	3.4	5.5	6.2	8.4
Imports of goods and services (% growth)	5.4	-1.9	2.0	4.8	5.9

Note: 'e' and 'f' indicate estimates and forecast, respectively.

Source: World Bank (2021b).

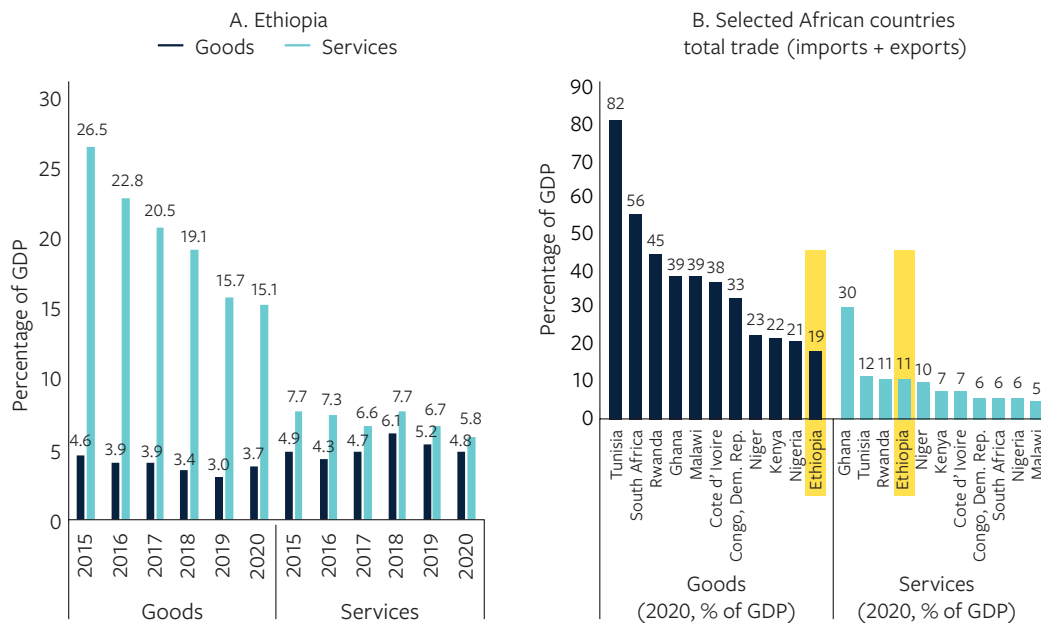
2 Trade landscape and business environment

2.1 Trade landscape

Ethiopia has relatively lower trade⁶ openness (30% of GDP)⁷ compared to sub-Saharan African countries (43% of GDP)⁸ as of 2020. In addition, the importance of trade (as a share of GDP) in Ethiopia has been declining since 2010 (Figure 1A). This was driven by declining imports since 2016, partly explained by the reduction in public investment and foreign exchange shortage (DOS, 2021).

With a small export base, Ethiopia has been a net importer of both goods and services (Figure 1A). As of 2020, exports and imports reached \$7.9 billion and \$19.5 billion, respectively.⁹ It may be noted, however, that Ethiopia's services exports (mainly travel and transport) are estimated to be of higher value than the goods exports. Annual services exports have been equivalent to 5% of GDP between 2015 and 2020, while annual value of goods exports averaged 3.8% of GDP during the same period (Figure 1A). Ethiopian Airlines' operating revenue alone (\$4.1 billion) is higher than total goods exports (\$2.7 billion) in FY 2018/19.¹⁰

Figure 1 Ethiopia and selected African countries' trade in goods and services



Source: authors' computations based on UNCTAD data accessed in November 2021.

⁶ Total trade refers to the sum of imports and exports.

⁷ Author's computations based on UNCTAD data.

⁸ Based on WDI data.

⁹ Based on UNCTAD data.

¹⁰ Based on data from NBE (2019) and EA (2019).

Based on National Bank of Ethiopia (NBE) data,¹¹ five products make up 70% of Ethiopia's total goods exports from FY2015/16 to 2019/20: coffee, oil seeds, chat flowers and pulses. Notably, the shares of textile and textile products to total goods exports have been increasing recently (from 3.7% in FY2017/18 to 5.7% in FY2019/20). During the pandemic, favourable gold prices led to an increase in value of Ethiopia's gold exports to \$197 million (6.6% of total exports) in FY2019/20 from \$28 million (1% of total exports) previously. The World Bank (2021b) indicates that a surge in gold trade boosted goods exports by 21.1% in FY2020/21.

Half of Ethiopia's goods exports in the past 5 years have been going to 10 destinations, led by the Netherlands, the US, China, Saudi Arabia and Germany.¹² Exports to all top destinations have been increasing except for those to China, which declined by more than 50% from FY2015/16 to FY2019/20. The declining Ethiopian exports to China were driven by the reduction of Ethiopian sesamum seeds (comprising 60% of Chinese imports from Ethiopia) going to Chinese markets during the same period.¹³

Ethiopia's export industry is facing significant challenges related to the ongoing and spreading conflict in Tigray region. The region is responsible for 40% of Ethiopia's sesame production, and the conflict might partly explain the 11% fall in oil seeds exports, and continued decline of exports to China in FY2019/2020 (NBE, 2021a; Berhe, 2019). In addition, on 2 November 2021, the US suspended Ethiopia's access to the African Growth and Opportunity Act (AGOA) in view of violations to internationally recognised human rights, to be reversed if the government addresses the humanitarian and political crises (Gebre and Tadesse, 2021; OUSTR, 2021). By 1 January 2022, the US released a statement officially terminating the AGOA trade preferences for Ethiopia (OUSTR, 2022). In 2020, almost half of Ethiopia's US-bound exports were traded under AGOA, mostly comprising garments, leather footwear, leather goods, flowers and vegetable products (Naumann, 2021). The US' duty-free sanction induced the decision of a global fashion company (PVH corporation) to close its manufacturing facilities in Ethiopia (Reuters, 2021).

Meanwhile, Ethiopia's main imported goods in the last five fiscal years were machinery and aircraft (15.9%), petroleum products (12.9%), metal and manufactured metals (11.2%), electrical materials (7.7%) and road motor vehicles (6.7%).¹⁴ During the same period, almost a third of Ethiopia's imports were from China, followed by the US (7.7%) and the United Arab Emirates (UAE) (3.3%). As of FY2019/2020, Ethiopia registered its largest trade deficit with China. Ethiopia's exports to Chinese market reached \$84 million, compared to \$3.5 billion worth of imports from China (Figure 2).

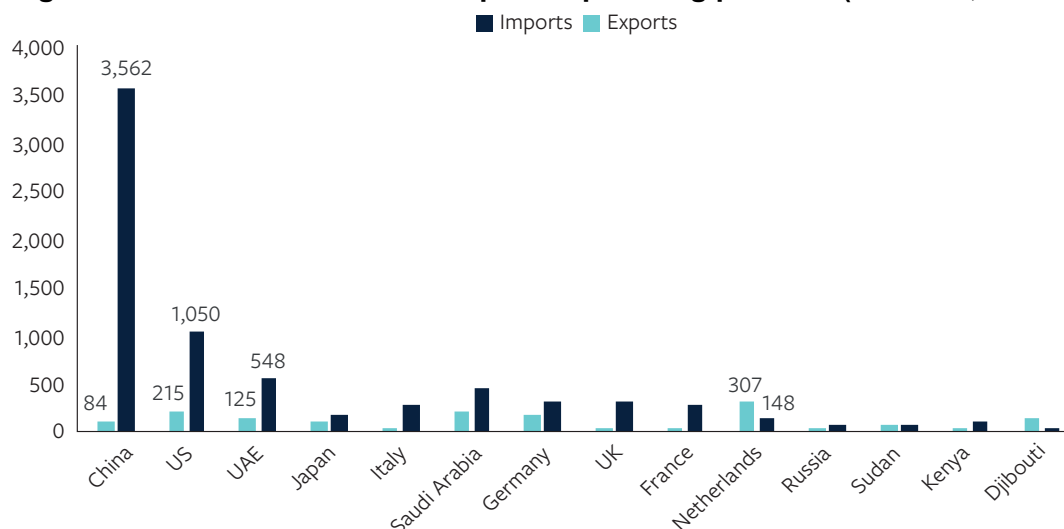
¹¹ Authors' computations based on data from NBE (2017; 2018; 2019; 2020).

¹² Author's computations/analysis based on data from NBE (2018, 2019, 2020).

¹³ Author's computations using UNCTAD data (i.e., data of Chinese imports from Ethiopia).

¹⁴ Author's computations based on data from NBE (2020).

Figure 2 Trade balance with Ethiopia’s top trading partners (\$ million, FY2019/20)



Source: authors’ computations based on import and export data from NBE (2020).

We investigate the efficiency (in terms of revealed comparative advantage, RCA) of Ethiopia’s top 25 products and world demand of such products (sourced globally) in the last five years of available data.¹⁵ Table 3 presents Ethiopian products which can be supported through export promotion or intervention to increase competitiveness. This list can be leveraged as the country gradually opens up its economy, as demonstrated by its resumption of WTO accession negotiations after eight years, in January 2020 (WTO, 2020). In its latest 10-year development plan up to 2030, the country aims to increase the number of its foreign trade destinations from 37 to 96 via WTO accession, implementation of African free trade zone agreements, reaching bilateral trade agreements, and trade promotion activities (PDC, 2021).

Table 3 Export products for promotion and targeted intervention

	Increasing RCA (e.g., for export promotion, facilitation)	Declining RCA (e.g., intervention to increase competitiveness)
Increasing world demand	<ul style="list-style-type: none"> Meat of goats Footwear Other dried mixtures of vegetables Other fresh or chilled vegetables Broad beans and horse beans Other bakers' wares; communion wafers, empty cachets, sealing wafers, rice papers and similar products T-shirts, singlets and other vests; of cotton, knitted or crocheted 	<ul style="list-style-type: none"> Sesamum seeds Semi-manufactured gold Live cattle Precious (other than diamonds) and semi-precious stones, unworked Other natural gums, resins, gum-resins and oleoresins Niobium, tantalum, vanadium ores and concentrates
Declining world demand	<ul style="list-style-type: none"> Not-decaffeinated coffee Kidney beans Chickpeas Leguminous vegetables Prepared leather of sheep or lamb Soya beans other than seed Beans of the species <i>Vigna mungo</i> (L.) Hepper or <i>Vigna radiata</i> (L.) Wilczek Prepared leather of goats or kids Pepper, neither crushed nor ground 	<ul style="list-style-type: none"> Oil seeds and oleaginous fruits Parts of aircraft and spacecraft Live sheep

Source: author’s compilation using World Integrated Trade Solutions data.

¹⁵ The top 25 products are based on annual average percentage of total exports at 6-digit category from 2015 to 2018, while world demand refers to world imports of such products sourced globally from 2015 to 2019. Data is from WITS.

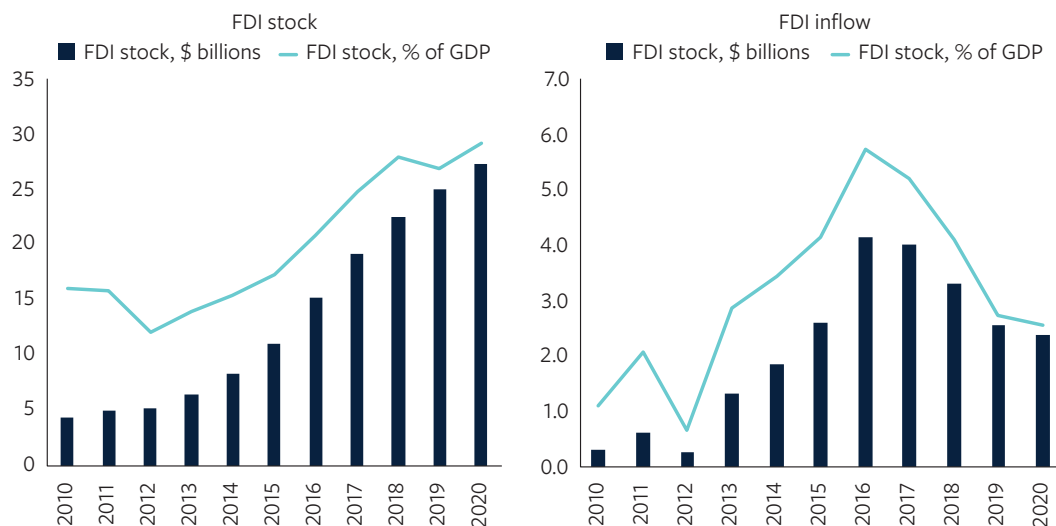
2.2 Foreign direct investment

Foreign direct investment (FDI) stock in Ethiopia has increased from \$5 billion to \$27 billion from 2011 to 2020, influenced by years of proactive industrial policy, including establishment of industrial parks (see EIC, 2019: Figure 3). Since 2011, the government has constructed 12 industrial parks while the private sector has developed another 7 (EIC, 2019). These efforts partly explain the relatively higher share of FDI inflows (between 50% and 80%) going to Ethiopia’s manufacturing sector between 2014 and 2018 (ibid.).

The declining FDI inflows in recent years, however, demonstrate Ethiopia’s vulnerabilities against domestic and external shocks. FDI inflows to the country declined in 2018 amid the global slowdown, and further declined in 2019 with instability in some regions, and plateaued FDI from China (EIC, 2019; UNCTAD 2019; 2020). FDI inflows fell by 6% to \$2.4 billion in 2020 (UNCTAD, 2021), amid Covid-19 and intensification of conflict in Tigray region.

Despite this, Ethiopia still accounted for more than a third of FDI flows that went to East Africa in 2019, and secured large-scale project finance deals worth \$4.4 billion in 2020 (ibid.). Some investment reforms (e.g., investment proclamation, regulations) were accelerated in Ethiopia 2020, including: shifting to a negative list approach; opening some transport segments to foreign investment; lifting foreign ownership restrictions in cement manufacturing, education and management consultancy; and relaxing restrictions on engagement of manufacturing firms in retail trade and e-commerce (see UNCTAD, 2020b; 2021).

Figure 3 FDI stock and flows (\$ million, % of GDP)



Source: authors' computations based on UNCTAD data.

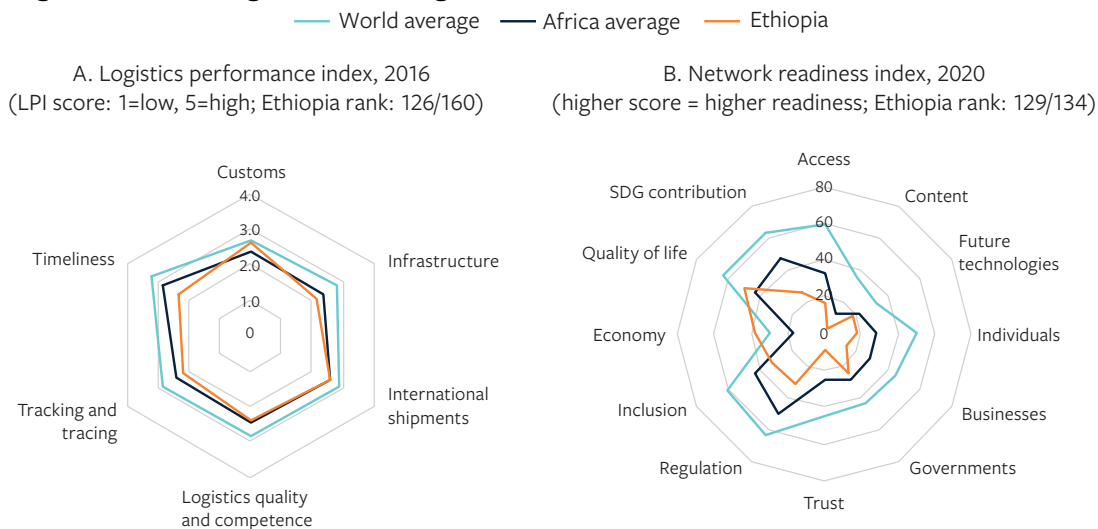
2.3 Business environment

Ethiopia’s business environment benefits from the country’s improving transport and energy infrastructure, low labour costs, large and growing domestic market, cheap power, preferential access to major markets such as the EU and the US, and growing integration with African countries (e.g., COMESA, AfCFTA) (IFC, 2019). However, the country’s business environment faces several challenges. For small firms, access to electricity and capital are main constraints, while industrial firms face high levels of labour turnover (ibid.). Surveyed firms also reported that their operational costs and production levels are being severely affected by shortage of foreign currency (Lloyd and Teshome, 2018). Women face particular barriers in starting and growing a business, accessing finance and participating in the labour force (IFC, 2019). The country also suffers from poor performance in terms of trade logistics and digital readiness compared to its African counterparts (Figure 4A).

The International Finance Corporation (2019) highlights two regulatory issues that limit private sector growth, as follows.

1. Policies and regulations are subject to different interpretations by different institutions, which create uncertainty for investors:
 - Laws and regulations are also subject to frequent change, with most frequent regulatory changes in in tax and immigration.
 - Unequal application of policies and rules for state-owned enterprises compared with the private sector has created unfavourable competition conditions, resulting in unequal access to finance, land and foreign currency.
 - Focus on FDI and an export-led model has conflicted with some of the national private sector development policies (e.g. development of small and medium enterprises).
2. Weak vertical and horizontal coordination in and between institutions leads to misalignment, lack of communication, slow decision-making and investor fatigue:
 - Enforcement of tax and customs rules across sectors is inconsistent.
 - The ‘one-stop-shop’ model, and the ‘plug-and-play’ model do not currently function well. Investors still find themselves having to deal with multiple institutions, leading to high transaction costs.

Figure 4 Trade logistics and digital readiness



Sources: Figure 4A data based on World Bank database; Figure 4B based on NRI data in networkreadiness.org by Portulans Institute. Aggregate scores (world and Africa) are based on simple average.

Nevertheless, government efforts have explicitly prioritised enhancing productivity and competitiveness, and transitioning from public- to private-sector-led growth in its ‘homegrown economic reform’ agenda since 2019. In the latest 2021–2030 government ‘Ethiopia: African Beacon of Light’ plan, creating a pragmatic market-based economic system and enhancing the role of the private sector is the number one objective (PDC, 2021). Key priority areas include reforms and policies for:

- sectoral and diversified sources of growth and job opportunities
- sustainable and inclusive financial sector development
- harnessing the demographic dividend
- quality and efficient infrastructure development
- sustainable urban development
- peace, justice, and inclusive institutions (ibid.).

The impact of the homegrown economic reforms, which are backed by IMF (2019) and World Bank (2020) funding, is yet to be seen. But a key monitoring and evaluation system embedded in the latest ten-year plan would likely provide evidence on target outcomes for private sector development. Ethiopia also modernised several reforms in the past two years that would help boost trade and investment, including a new commercial code (replacing the 1952 version) and the Arbitration and Conciliation Working Procedure (embedded in the 1960 Civil Code and 1965 Civil Procedure code) in April 2021; and a new Investment Proclamation and Investment Regulation (replacing No. 270/2012) in September 2020 (UNCTAD, 2020b). In addition, the development of industrial parks and active investment promotion of the Ethiopia Investment Commission helped in attracting non-traditional investors such as China (EIC, 2019; Embassy of China in Ethiopia, 2015). Stock of FDI from China in Ethiopia has grown by almost 600% from \$368 million in 2010 to \$2.6 billion in 2019 (CARI, 2021).

3 Intra-African trade performance and AfCFTA

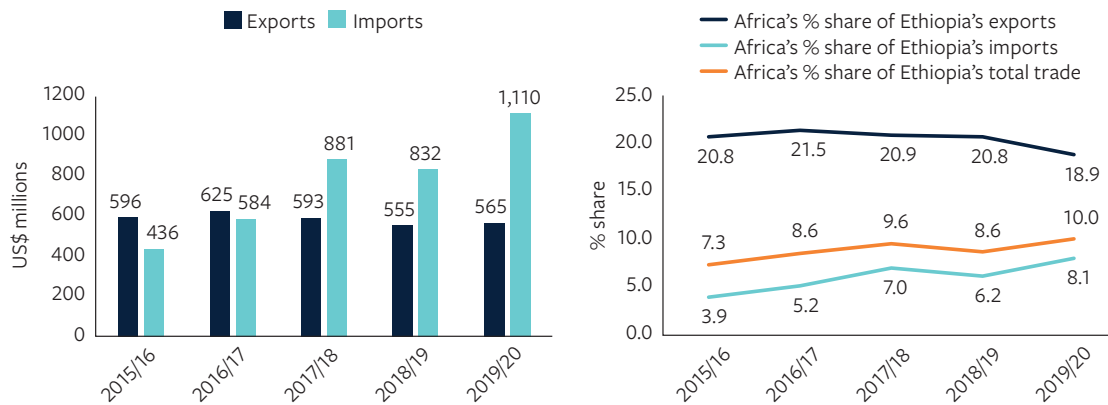
3.1 Background: Ethiopia’s goods trade with Africa

Intra-African goods trade (imports + exports) comprised 10% of Ethiopia’s total trade as of FY2019/20 (Figure 5). Ethiopia had a goods trade surplus with African countries from FY2015/16 to FY2016/17, but has recently become a net importer of goods from the continent in the past two years (Figure 5). In the last five fiscal years, 80% of Ethiopia’s exports to the continent went to Somalia, Djibouti and Sudan, while 80% of Ethiopia’s imports from Africa were sourced from Morocco, Egypt and South Africa.¹⁶

¹⁶ Author’s computations based on data from NBE (2016; 2017; 2018; 2019; 2020).

Ethiopia’s top imported products from Africa during the same period include fertilisers (24.5%), petroleum oil (10.9%) and coal (8.7%).¹⁷ The recent increase of imports from Africa in FY2019/2020 was driven by the double-digit growth of imports from Morocco and Egypt:¹⁸ Ethiopia increased its imports of fertilisers (Morocco and Egypt) and oil (Egypt).¹⁹ Meanwhile, Ethiopia’s major exports to the continent include coffee (15%), kidney beans (12.5%), broad and horse beans (5.9%), vegetables (7%) and live cattle (4.6%), based on latest available data from 2015–2018.²⁰

Figure 5 Ethiopia’s intra-African trade in goods, 2015/16–2019/20



Source: authors' computations based on data from NBE (2016, 2017, 2018, 2019, 2020).

Trade-weighted most-favoured nation tariff rates imposed by Ethiopia on imports from Africa ranged from zero for Botswana to 33.8% for Cape Verde of 2018.²¹ Ethiopia extends preferential tariffs to 12 African countries,²² which, like Ethiopia, are part of the Common Market for East and Southern Africa (COMESA). It may be noted, however, that Ethiopia is not participating yet in the COMESA FTA, although it reiterated in November 2020 its commitment to join the FTA (*ibid.*). The COMESA, East African Community and Southern African Development Community have ongoing negotiations to realise a Tripartite FTA (COMESA, 2020).

At the continental level, tariffs will be progressively liberalised in stages, and apart from 'sensitive' and 'exclusion list' products under the AfCFTA. Tariffs will be liberalised (to zero) for 90% of tariff lines over ten years for least developed countries (LDCs) and five years for non-LDCs (AfCFTA Secretariat, 2021). Sensitive products shall not exceed 7% of total tariff lines, while the exclusion list shall not exceed 3% of total tariff lines with intra-Africa import value limit of not more than 10% (*ibid.*).

Figure 6 shows the top 10 imported products by Ethiopia from African countries, which accounts for 64% of imports from the continent. AHS is defined by the WITS

¹⁷ Author's computations based on data from NBE (2016; 2017; 2018; 2019; 2020).

¹⁸ Author's computations based on data from NBE (2020).

¹⁹ Author's computations based on 2018 to preliminary 2020 WITS data.

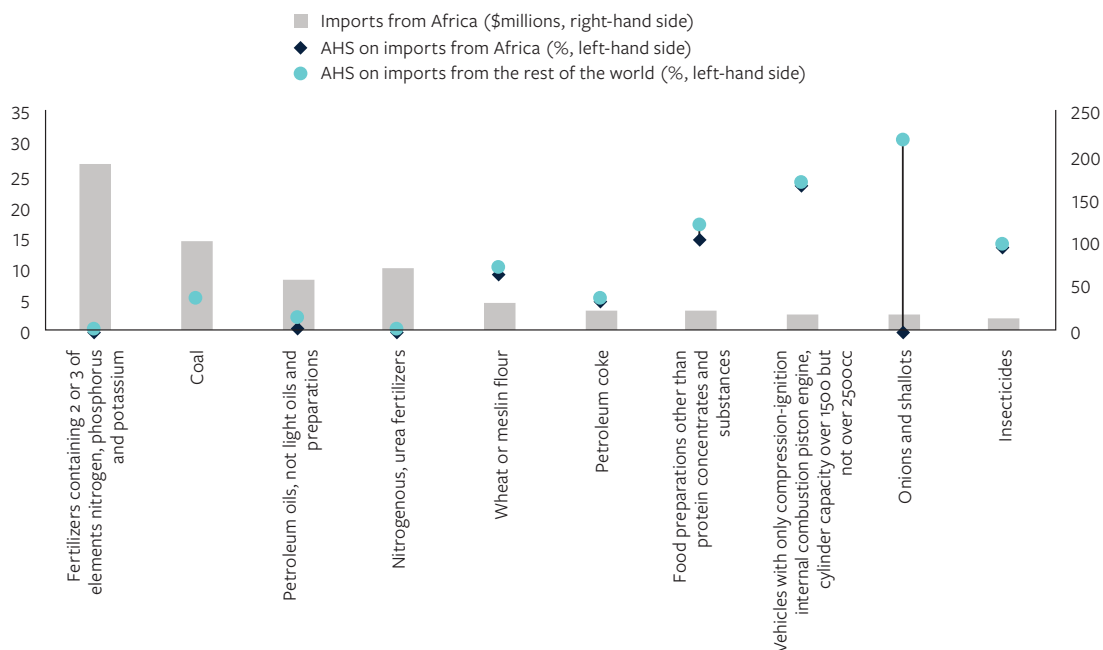
²⁰ Author's computations based on WITS 6-digit product data from 2015 to 2018.

²¹ Based on 2018 tariff year and 2015 trade data from World Trade Integrated Solutions database.

²² Based on WITS data, the 12 countries where Ethiopia extends preferential tariffs: Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Uganda, Zambia and Zimbabwe.

database as the lowest existing preferential tariff rates or applied most-favoured nation tariffs. Figure 6 also shows that the AHS imposed by Ethiopia on imports from Africa is broadly the same for AHS imposed from the rest of the world, indicating room for Ethiopia to extend preferential rates to African neighbours under the AfCFTA.

Figure 6 Effectively applied tariff rates (AHS) on Ethiopia’s imports from Africa and the rest of the world, 2018 (%)



Source: World Trade Integrated Solutions database.

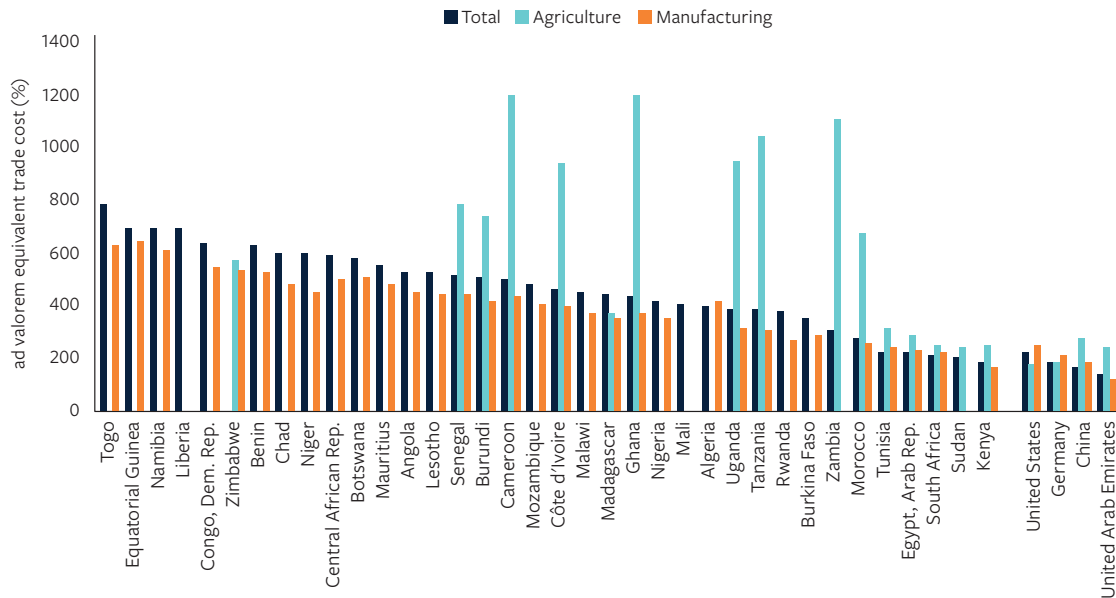
Non-tariff measures (NTMs), including sanitary and phytosanitary, technical barriers to trade, pre-shipment inspection, and price and quality control, – ranging from 60 to 768 NTMs imposed by Niger and Mauritius, respectively²³ – also affect Ethiopia’s imports from other African countries. However, the number of NTMs does not indicate the magnitude of restrictiveness on trade. Figure 7 shows ad valorem equivalent²⁴ trade costs that incorporate not only transport costs and tariffs but also other trade costs, including direct and indirect costs associated with differences in languages, currencies and cumbersome import or export procedures.²⁵

²³ Author’s computations based on TRAINS database accessed in September 2021.

²⁴ Percentage of the estimated value of the goods.

²⁵ It should be noted that the measure is an average for all traded goods, some of which may not be traded (or very little) in practice due to prohibitively high trade costs. This measure, developed by ESCAP and World Bank (2017), includes all costs involved in trading goods internationally with another partner (i.e. bilaterally) relative to those involved in trading goods domestically.

Figure 7 Bilateral ad valorem trade costs between Ethiopia and respective partners (% , average 2014–2018)



Source: World Bank database

Based on this measure, trading with Togo is about eight times more expensive than trading within Ethiopia’s borders (and vice versa).²⁶ Figure 7 also suggests that, excepting Kenya, Sudan and South Africa, bilateral trading costs between Ethiopia and African countries are more than those with countries outside the region (e.g., the US, Germany, China and the UAE), presenting both a challenge and an opportunity to increase Ethiopia’s intra-continental trade.

3.2 Status of Ethiopia’s AfCFTA implementation

Ethiopia, as a host of the African Union (AU), strongly supports continental integration including through AfCFTA (PDC, 2021). The Ethiopian government deposited its instrument of ratification to the AU Commission on 10 April 2019 (AU, 2020). As of 4 October 2021, 41 countries have complied with their domestic requirements for ratification of AfCFTA, 38 of which have deposited their instruments of ratification to the AU Commission (tralac, 2021). As of March 2021, AfCFTA secured 90% of tariff offers and 34% of services offers (AU, 2021).

The Ethiopian government recognises the role of AfCFTA, together with other bilateral and multilateral agreements, as channels to boost the country’s trade and investment (PDC, 2021). Acknowledging that Africa’s imports are mainly manufactured products, the government has prioritised the manufacturing sector in its national development agenda (Gorfu, 2020). Over the medium term, the government aims to increase the share of manufacturing to GDP from 6.9% in FY 2019/20 to 17.2% of GDP in FY 2029/30 (PDC, 2021). As a landlocked economy, Ethiopia also aims to develop cross-country infrastructure and ports with neighbouring countries, as well as promoting mobility of skilled workers to maximise benefits from integration at regional and continental levels (ibid.).

Ethiopia began the effectivity of the agreement on 1 January 2021 by transporting trophies to various African countries under the AfCFTA, via the partnership between Ethiopian Airlines – DHL and the African Electronic Trade Group (AETG, 2021). A

²⁶ See Arvis et al. (2012) for full discussion of methodology.

national AfCFTA strategy is being developed with stakeholders to ensure that Ethiopia benefits from the agreement (see ICPALD, 2021).

At the level of regional communities (of which Ethiopia is a member), COMESA established a partnership framework with the AfCFTA Secretariat in April 2021 to support AfCFTA implementation (Gakunga, 2021b). COMESA has called for cooperation on piloting a pan-African payment and clearing system, and institutional partnerships covering development banks, insurance agencies, competition commissions and business councils (ibid.). The Intergovernmental Authority on Development²⁷ (IGAD) which pursues regional cooperation and development (non-FTA), has conducted preparatory activities for AfCFTA, including on standards compliance and regional infrastructure (see IGAD 2020a; 2020b; 2018).

The next phases of AfCFTA negotiations will include competition, intellectual property (IP), investment and digital trade. Compared to other African countries lacking legislation in these areas, Ethiopia has competition legislation and a dedicated competition authority (Dawar and Lipimile, 2020). The country also has existing IP laws that govern specific elements of IP, including: inventions, minor inventions and industrial designs; copyright and neighbouring rights; trademark; plant variety protection; genetic resources, community knowledge and community rights; and unfair competition law (Getachew, 2019).

Ethiopia also recently modernised its investment regulation (No. 474/2020) and commercial code (No. 1243/2021), put in place a proclamation for electronic transactions (No. 1205/2020), and is reported to be preparing a draft e-commerce law (ITA, 2021). All these regulations can be leveraged upon in the next phases of AfCFTA negotiations. To enable smooth implementation of the AfCFTA, Ethiopia would benefit from implementing a national AfCFTA strategy and undertaking a gap analysis comparing commitments to AfCFTA provisions and domestic legislation and regulations.

²⁷ IGAD has eight members: Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan and Uganda.

4 Opportunities and challenges for Ethiopia's trade and investment

Based on the analysis of Ethiopia's macroeconomic performance, trade and investment landscape, and AfCFTA implementation in previous sections, we summarise the following SWOT considerations for Ethiopia's trade and investment prospects.

Strengths	<ul style="list-style-type: none"> • Large and growing domestic market. • Strong and fast GDP growth with significant poverty reduction in the past decade, before the Covid-19 pandemic. • Low labour and energy costs. • Clear government vision and targets for economic transformation. • Existing legislation and policies on competition, investment, IP and digital transactions, relevant for the next phase of AfCFTA negotiations.
Weaknesses	<ul style="list-style-type: none"> • The fragile internal conflict situation in Tigray region is disrupting trade and businesses, and discouraging investment flows. The US' suspension of Ethiopia's access to AGOA has already induced closure of a global fashion company's (PVH corporation) manufacturing facilities in Ethiopia. • Nascent stage of opening to trade and investment (e.g., not yet part of WTO, COMESA FTA, and yet to trade under AfCFTA). • Relatively poor performance in terms of trade logistics and digital readiness compared to other countries in Africa. • Firm constraints related to difficulties in accessing electricity, high levels of labour turnover, and shortage of foreign currency. • Higher barriers faced by women in terms of growing a business, accessing finance, and participating in the labour force. • Lack of coordination and inconsistent interpretation of policies and regulations in and between institutions.
Opportunities	<ul style="list-style-type: none"> • Strategic geographical location with proximity to Middle East, Europe and Asia and membership of regional communities in Africa. • Has existing preferential access to major markets such as EU and US (but AGOA is currently suspended pending conflict resolution). • Recently modernised commercial and investment laws. • Intervention to boost Ethiopia's agricultural, manufactured and mineral exports to maximise regional, continental and global integration, following the government's resumption of WTO accession negotiations, ratification of the AfCFTA, and commitment to join the COMESA FTA.
Threats (risks)	<ul style="list-style-type: none"> • Subdued demand in the event of a protracted Covid-19 pandemic and/or limited access or constrained deployment of Covid-19 vaccines. • The fragile conflict situation in Tigray region may disrupt sesame seeds/oil production (major export) and protract suspension of AGOA access. • High risk of public debt distress. • Global prices volatility, adverse weather conditions, locus invasions • Delays in AfCFTA implementation or higher preference to trade outside Africa due to relatively higher costs of intra-African trade and/or due to domestic legislative constraints.

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