

## Ethiopia and European Union Trade during 2003 to 2013: An Analysis

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### **Abstract:**

*European Union (EU) is second largest trade partners of Ethiopia accounting for 14.5% of Ethiopia's total trade just after China in 2013. EU exports to and imports from Ethiopia are slowly gaining momentum. Ethiopia is looked upon as important development assistance partners of EU in Africa. Still this holds true or there is any improvement in commercial trading relationship between Ethiopia and EU. Further, what will be the future of the bilateral and multilateral trade between Ethiopia and EU? In order to know the answer, we attempted to analyze the trend of trade between the two trade partners and then projected the potential of the future trade between them. Here we have applied projected growth rate formula to guess the volume of future trade between two trade partners. Further, what are the important factors responsible for the trade flows between them? To know this, we further attempted to correlate certain selected variables with total trade position of the Ethiopia with EU.*

**Key words:** Trade projection, trade openness, EU development assistance, EU business

## **1.0 Introduction**

Development assistance from European Union members flows bilaterally and multilaterally to Ethiopia. Ethiopia is the largest recipient of European Union aids in Africa as well as in the World. EU provided 40% of the bilateral donor aid amounting 40% or 1 billion Euros in 2009 other than World Bank and USA. European investment facility is also available to Ethiopia. However, Ethiopia uses small credit lines of this investment facility. There is no other credit line or loans available to from any other European member nations. The volume of aid from Europe although is high but highly fragmented with number of actors both private and public (OECD, 2011). These aids mainly flow from 10 European nations with the highest share of UK. Other eastern and southern European member states provide small volumes of assistance. There is a wide fluctuation of these assistances as it has become half from Italy, while UK has announced an assistance of 533 million USD by 2015 which is four times of its developmental assistance. The European donor agencies are involved with implementation of official development programme, infrastructure, transport sector and other social sectors. The Millennium Development Goal (MDG) in Ethiopia is being implemented with European assistance, however with full ownerships of its development strategy. European donors are fully satisfied with implementation of development vision by Ethiopia government and are hopeful of continuation of this in future (Furtado et. al. 2009). The high level assistance however has limited influence on Ethio – EU trade. The trade of Ethiopia with EU is very marginal in comparison to other African nations. EU was the largest export markets for Ethiopian products and second largest source of imports market in 2011 (European Commission). Ethiopia exports market to EU is limited with primary products with largest exports of coffee to Germany. Trade with EU increased marginally after

quota and duty free access status was provided to Ethiopia in 2001. However, the investments by European private companies are very little. German companies are making some sort of investment only in leather and flower industries. Ethiopia although ranked 10<sup>th</sup> investment destination among African nations and 104<sup>th</sup> investment destinations in World rankings among 183 countries but European investors perceives it as difficult business environment to carry out the business. Amongst the top trading partners of EU, Ethiopia's position is 87<sup>th</sup> with total trade value of 1,760 million Euros in 2013. EU's import was 545 million Euros with 90<sup>th</sup> position and exports to Ethiopia was of value 1,215 million Euros with 81<sup>st</sup> position in 2013 (Eurostat).

Currently Ethiopia is involved in numbers of multilateral trade negotiations such as with WTO, economic partnership programme (EPA) with European Union. Ethio-EU partnership started back in 1975 after the signing of Lome convention. The same year EU opened its delegation. EU is making financial and technical investment in Ethiopia since that time. Ethiopia receives technical support and development funds from European Development Funds (EDF) besides additional funds from general budget every year for food security and food aids. Trade, gender and environmental conservation programme are some of the priority area of EU funding's in Ethiopia. Tenth EDF provided 644 million Euros to Ethiopia for transport and rural development sector. The trade however cannot be ignored as still EU is one of the significant trade partners of Ethiopia. The importance of EU as an important trade partner of Ethiopia is evident from the data given in the table 1 below. Table 1 shows the top 10 trading partners of Ethiopia in 2013.

**Table 1: Top 10 Trade Partners of Ethiopia in 2013**

Rank	Trade Partner	Trade Value (€ million)	Trade Share (%)
1	China	1,795	15.0
2	European Union	1,739	14.5
3	Saudi Arabia	975	8.1
4	India	762	6.3
5	USA	709	5.9
6	Turkey	347	2.9
7	Sudan	167	1.4
8	Japan	155	1.3
9	Ukraine	136	1.1
10	South Korea	96	0.8
<b>16</b>	<b>Total Trade</b>	<b>12,003</b>	<b>100%</b>

Source: Director General for Trade, European Commission, 27<sup>th</sup> August, 2014.

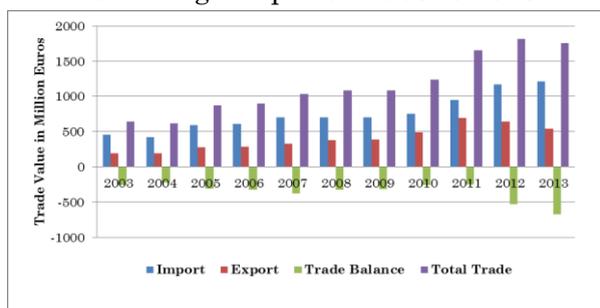
The European Community (EC) has been Ethiopia's largest trading partner after China and followed by Saudi Arabia and India. Ethiopia's trade with EU reached the level of €1,739 million in 2013 which is 14.5% of its total trade. But there exist wide fluctuations in trade balance due to fluctuations in Ethiopia's exports and imports over the years. In 2003, Ethiopia had a trade deficit with the EU to the volume of (-) 261 million Euros, which increased in the subsequent years and the magnitude of the deficit reached at (-) 670 million Euros in 2013. Ethiopia's export to EU has increased from 192 million euros in 2003 to 545 million euros in 2013 recording an average annual growth rate of 11% approximately during this period. The import increased from 452 million euros in 2003 to 1,215 million euros in 2013 recording an average annual growth rate of 10.4 % during this period. The total trade went up from 644 million euro in 2003 to 1,760 million euros in 2013 recording an average annual growth rate of 10.6%. Ethiopia's exports, imports, total trade and trade balance with EU for the period 2003 to 2013 is presented in Table 2.

**Table-2: Ethiopia’s Exports and Imports with EU During 2003 to 2013**  
(Value in million Euros)

Year	Imports	Annual Growth Rate of Imports (%)	Exports	Annual Growth Rate of Exports (%)	Trade Balance	Total Trade	Annual Rate of Total Trade (%)
2003	452		192		-261	644	
2004	419	-7.4	197	3.1	-221	616	-4.3
2005	589	40.6	280	42.0	-309	869	41.1
2006	608	3.2	286	1.9	-323	894	2.9
2007	705	15.9	330	15.5	-375	1,035	15.8
2008	705	0.1	379	14.9	-326	1,084	4.7
2009	702	-0.6	384	1.2	-318	1,085	0.1
2010	750	6.9	491	28.0	-259	1,241	14.4
2011	951	26.9	698	42.2	-253	1,650	33.0
2012	1,173	23.3	644	-7.8	-529	1,817	10.1
2013	1,215	3.6	545	-15.3	-670	1,760	-3.1
<b>Compound Average Growth Rate (CAGR) of Total Trade during 2003 to 2013</b>							<b>10.6%</b>

Source: European Commission Directorate-General for Trade, Eurostat Comext- Statistical Regime 4 (27.08.2014).

Figure 1 shows the exports, imports and balance of trade of Ethiopia with EU during the period 2003 to 2013.



**Figure 1 - Ethiopia’s Trade with EU (2003-2013)**

### 1.1 Composition of Ethiopia’s Imports and Exports from EU during 2009 to 2013:

During 2009 to 2013 the major items that Ethiopia imported from EU were vegetable products, foodstuffs, beverages and tobaccos, minerals, chemicals, plastics, rubber and articles thereof, pulp of woods, papers and paper boards, articles of stones, glass and ceramics, base metals and articles thereof, machinery and appliances, transport equipment, optical and photography instruments and certain manufactured articles. The major items of Ethiopia’s export to EU during the above-mentioned period were products of vegetable products, raw

hides, skins and saddlery, textiles and textiles articles, footwear, hats and other headgears, machinery and appliances, transport equipment and optical and photography instruments . Major items of Ethiopia's imports from EU and exports to EU during the period 2009 to 2013 are presented in Table 3 and 4 respectively.

**Table 3: Ethiopia's Import from EU Trade Flows (Imports) by HS Section 2009-2013**

<i>HS Section</i>		<i>Imports (Mio. €)</i>				
		<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
I	Live animals; animal products	2	3	5	6	9
II	Vegetable products	46	37	24	21	29
III	Animal or vegetable fats and oils	1	1	1	1	1
IV	Foodstuffs, beverages and tobaccos	14	19	36	28	28
V	Mineral products	4	4	5	12	4
VI	Products of the chemical or allied industries	144	170	256	273	329
VII	Plastics, rubber and articles thereof	20	24	30	33	38
VIII	Raw hides, skins and saddlery	1	1	1	1	1
IX	Wood, charcoal, cork and articles thereof	2	6	4	7	9
X	Pulp of wood, paper and paperboard	27	17	17	25	25
XI	Textiles and textile articles	5	5	7	8	5
XII	Footwear, hats and other headgear	1	2	2	2	2
XIII	Articles of stones, glass and ceramics	5	7	6	7	10
XIV	Pearls, precious metals and articles thereof	1	0	0	4	3
XV	Base metals and articles thereof	31	39	50	61	54
XVI	Machinery and appliances	262	228	344	453	454
XVII	Transport equipment	87	107	100	130	141
XVIII	Optical and photography instruments, and etc.	33	25	43	55	53
XIX	Arms and ammunition	0	0	0	0	0
XX	Miscellaneous manufactured articles	9	15	11	16	12
XXI	Works of art and antiques	0	0	0	0	0
XXII	Not classified	8	40	9	29	7
<b>Total</b>		<b>702</b>	<b>750</b>	<b>951</b>	<b>1,173</b>	<b>1,215</b>

Source: Director-General for Trade, Units A4/G2, European Commission, 27.08.2014.

**Table 4: Ethiopia's Export to EU Trade Flows (Exports) by HS Section 2009-2013**

<i>HS Section</i>		<i>Exports (Mio. €)</i>				
		<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
I	Live animals; animal products	0	1	0	0	0
II	Vegetable products	306	431	585	535	437
III	Animal or vegetable fats and oils	1	1	1	1	1
IV	Foodstuffs, beverages and tobaccos	14	0	1	1	1
V	Mineral products	0	0	2	0	0
VI	Products of the chemical or allied industries	0	0	0	0	0
VII	Plastics, rubber and articles thereof	0	0	0	0	0
VIII	Raw hides, skins and saddlery	25	24	40	22	20

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<i>HS Section</i>		<i>Exports (Mio. €)</i>				
		<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
IX	Wood, charcoal, cork and articles thereof	0	0	0	0	0
X	Pulp of wood, paper and paperboard	0	0	0	0	0
XI	Textiles and textile articles	7	9	32	32	39
XII	Footwear, hats and other headgear	4	3	4	3	1
XIII	Articles of stones, glass and ceramics	0	0	0	0	0
XIV	Pearls, precious metals and articles thereof	0	0	0	0	0
XV	Base metals and articles thereof	0	0	1	0	0
XVI	Machinery and appliances	20	15	27	44	37
XVII	Transport equipment	1	3	2	1	3
XVIII	Optical and photography instruments, and etc.	2	1	1	1	1
XIX	Arms and ammunition					
XX	Miscellaneous manufactured articles	0	0	0	0	0
XXI	Works of art and antiques	0	0	0	0	0
XXII	Not classified	2	2	2	3	3
<b>Total</b>		<b>384</b>	<b>491</b>	<b>698</b>	<b>644</b>	<b>545</b>

Source: Director-General for Trade, Units A4/G2, European Commission, 27.08.2014.

## 2.0 Literature Review

Ethiopia is one of the important countries with regards to European Union cooperation with Africa. Ethiopia is also the largest aid recipient in Africa (Hackenesch, 2011). European Union is engaged with development programme of Africa as a part of European Development Policy in Africa (Grimm et.al. 2012). EU follow standard developed by OECD Development Assistance Committee (DAC) for providing bilateral and multilateral aid. The development assistance is indirectly related with official flows, trade and investment in African context. The preferential and commercial credits from was 1 billion USD in 2009 (Craig-McQuaide et.al. 2011).

The Ethio-EU economic cooperation began in 1975, after signing of Lome Convention by Ethiopia. EU established its delegation in Ethiopia in that year only. Besides EDF, European Commission budget line is provided to Ethiopia for food security and food aid. European Investment Bank also provides credits to Ethiopia for telecommunications, aviation and energy projects. It also support small and medium scale industries of Ethiopia by providing global loan facilities. The development cooperation laid emphasis on agriculture, food

security, infrastructure, health and education (European Commission, 2014).

The entry of big player like China in Africa has changed the outlook of EU in Africa and it is reorienting EU-African partnership programme (Berger et.al. 2007). This is also putting a competitive pressure on European commission development policy in Africa (Woods 2008).

Ethiopia is one of the important countries from the point of view of EU cooperation regarding Africa. Ethiopia is one of the largest EU aid recipient countries in Africa (EU donor atlas 2010). Ethiopia is one of the main African countries that have direct linkage with reformation of EU aid policy. After the entry of China in Africa, effort has already been started to improve the European policy in making Africa including partnership programme such as EU – Africa strategic partnership programme. European policy towards Africa was fragmented for a long time. Even now the trade and development policy, foreign and security policy involves different interest groups and decision-making structure (Hackenesch, 2011).

Official development fund to Africa is managed through EDF by European Commission and by EU member states through bilateral partnership. The development policy towards Africa enjoys a high level of autonomy at the EU level with development commissioner and ministries at EU member states (Olsen 2005). However, the trade and agriculture policy managed by special interest group is more powerful and stronger than weak development policy which is managed by development administration and NGOs (Carbone 2008).

The reform process of European development policy which started in 1990s was modified in 2000s with untying the development policy agenda with commercial motives. EU although was not solely responsible for the reform process however strictly adhered to the principle of poverty eradication, improving the governance system and ensuring other development agenda in post -cold war period, which is regarded

as a new partnership policy (Fraser et. al. 2009). Many are critical about the European development policy regarding Africa with respect to this reform process. There is greater expectation for EU policy and institutional reform to enable EU to act as a principal actor in development process (Maxell et. al. 2003). Many targets are yet to be fulfilled. European aids have been reduced substantially by many donors because of the economic crisis in Europe along with tight public budgets.

The macro-economic sectors such as Protection of Basic Services program (PBS), the Public Sector Capacity Building Program (PSCAP), Export Stabilization Fund, Education Sector Development and the Polio Eradication Programs in Ethiopia are supported by EU. EU also assists in various projects in the areas of education, health, gender and child rights through NGO funding. The EU finances flows towards food aid, emergency relief, rehabilitation operations and long-term food security and rural development programs, helping to meet emergency needs as well as supporting long-term development. European Commission's Humanitarian Aid office in Addis Ababa coordinates EU relief efforts assistance.

EU is more interested in the eradication of poverty in the context of sustainable development including the achievement of the Millennium Development Goals (MDGs). This is clear from the European Consensus on Development, signed in 2005, under which EU member states and the EU Commission agreed upon a common vision of development. The mutual partnership are targeted with mutual aims of promoting respect for human rights, fundamental freedoms, peace, democracy, good governance, and gender equality, the rule of law, solidarity and justice. European Commission's co-operation partnership with Ethiopia is contributing towards reducing income inequalities, accelerating sustained economic development and regional integration as well as strengthening democratization processes in order to achieve and maintain peace, security and economic prosperity in Ethiopia The

mutually agreed co-operation strategy, presented in the 10<sup>th</sup> EDF's Country Strategy Paper for Ethiopia (2008-2013) is built around three priorities: transport and regional integration, rural development and food security and macroeconomic support and governance. Additional support is provided in the fields of environment, culture, biological heritage conservation, and de-mining.

EU business workshop in Ethiopia organized in 2013 in cooperation with the EU Delegation, EU Member States discussed the relationship of Ethiopian businesses and their EU counterparts the role of foreign companies in the Growth and Transformation Plan, opportunities and challenges to investing in Ethiopia and selected financing opportunities offered by EU Member States. The workshop underlined the interests of European consumers in Ethiopian products and of Ethiopian businesses to sell in the EU markets. One aim was to encourage the creation of a European Business Forum which was finally launched in May 2014. The Forum brings together European investors active in Ethiopia thereby creating an opportunity for regular exchange of views and ideas, allows for the developing of a platform for networking and business linkages, and for a systematic dialogue with relevant bodies including the Revenues and Customs Authority and the National Bank. The objective behind this was that the Forum should complement bilateral relations. A tripartite Memorandum of Understanding was signed by the EU Delegation, the EU Business Forum, and the Ethiopian Revenues and Customs Authority to help the parties work together to increase the presence of EU business in Ethiopia. EU companies invested 53 Billion birr in Ethiopia between 2000 and 2008. Most of this was from Britain, Germany, Italy, Sweden and the Netherlands. However, the amount of EU investment has fallen visibly since then. The workshop in 2013 was designed to address this. The EU is currently the largest market for Ethiopian exports with about 30% of all exports going to the EU, of which coffee and flowers

are two of the main components. The EU offers preferential conditions with duty and quota free entry for all products. It is also a considerable investor in Ethiopia. EU as Ethiopia's major trading partner for both exports and imports has supported programs relating to trade. Among this the micro-small enterprises development program, the economic partnership agreement, impact assessment studies and the WTO Impact Assessment Project are notable. The total trade of EU with Ethiopia is only 0.1% and exports 0.1% and imports of negligible amount in 2013. The average annual growth rate of EU's imports 9.2% and exports was 14.7% during 2009 to 2013. Ethiopia was basically intended as an official development partner of EU rather than a trade partner. However, the recent effort by EU business delegation has shown interest in making certain viable investment in Ethiopia which will gather momentum in future. In this paper, we have tried to analyze the trend of Ethio-EU trade and project the future trade, imports and exports.

### **3.0 Objectives of the Study:**

The objective of this paper is to project the future trade flows between Ethiopia and European Union during the period 2014-2020 on the basis of past data.

### **4.0 Methodology:**

#### *4.1 Projection of Ethiopia-EU Trade:*

The future prospects of Ethiopia - EU trade has been projected taking into account the average annual growth rate of trade for the past periods i.e. 2003 to 2013. Here we have used projected growth rate formula to calculate the trade for future period. The formula is given below:

$$T_{pn} = T_{n-1} + (T_{n-1} * X \%)$$

Where  $T_{pn}$  = Trade Projection for n –year

$T_{n-1}$  = Trade in n-1 year

X % = Compound Average Growth Rate of trade for a time period.

## 5.0 Analysis and Results

### 5.1 Projection of Ethiopia-EU Trade:

The future trade between Ethiopia and EU has been projected taking into account the average annual growth rate of trade for the past periods. Here we have projected the future trade using the following formula<sup>1</sup>:

$$T_{pn} = T_{n-1} + (T_{n-1} * X \%)$$

Where  $T_{pn}$  = Trade Projection for n –year

$T_{n-1}$  = Trade in n-1 year

X % = Compound Average Annual Growth Rate of trade for a time period.

For the projection of Ethio-EU trade in 2014 to 2020, we have taken compound average growth rate (CAGR) of trade for the past ten year between Ethiopia-EU trades i.e. 2003-2013 presented in Table 2. The compound average annual growth rate of trade during the above-mentioned period was 10.576%. The future trade (approximate) between Ethio-EU has been calculated applying above CAGR for the years from 2014 to 2020. The trade projection is shown in Table 5. The calculated projected trade will be approximately 2,152 million Euros for the year 2015 which will eventually goes up to 3, 558 million Euros approximately in the year 2020.

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<sup>1</sup> For calculation of Ethiopia-EU Trade in 2014, We have used the formula:

$$T_{pn} = T_{n-1} + (T_{n-1} * X \%)$$

Where  $T_{pn}$  = Trade Projection for n –year =2014

$T_{n-1}$  = Trade in n-1 year = Actual Trade in 2013 = 1,760 million Euros

X % = Compound Average Growth Rate of Trade (annual) for a time period.

= Average Annual Growth Rate of Trade from 2003-2013 (past ten years growth rate in trade

= 10.576% (Values are taken from Table 2)

This is calculated using formula mentioned above in End Note 2.

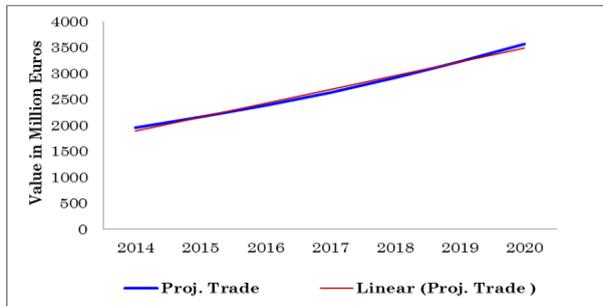
**Table 5: India-EU Trade Projection**

**During 2014 to 2020**

*(In Million Euros)*

<i>Year</i>	<i>Projected Trade (approx.)</i>	<i>Projected Imports (approx.)</i>	<i>Projected Exports (approx.)</i>
2014	1,946	1,344	603
2015	2,152	1,486	666
2016	2,380	1,643	737
2017	2,631	1,816	815
2018	2,910	2,009	901
2019	3,217	2,221	996
2020	3,558	2,456	1,102

NB: Total Trade Calculated at existing compound average growth rate of 10.576%. The import was calculated at 10.394% and export at 10.997%.



**Figure 2: Trade Projection from 2014 -2020**

*Projection of Ethiopia's Imports from EU:* The calculated projected import will be approximately 1,486 million Euros for the year 2015 which will eventually increase to 2,456 million euros approximately in the year 2020.

*Projection of Ethiopia's Exports to EU:* The calculated projected export will be approximately 666 million Euros for the year 2015 which will eventually increase to 1,102 million euros approximately in the year 2020.

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$$T_{2014} = 1,760 + (1,760 * 10.576\%) = 1,946$$

## **6.0 Conclusion:**

Trade prospects of Ethiopia's with EU is gaining momentum with a projected total trade reaching up to 3, 558 million Euros approximately in the year 2020. However, there is need to increase the Ethiopia's exports to EU. We further, carried out a regression analysis with selected factors responsible for trade flows between Ethiopia and EU. The selected factors were trade openness in Ethiopia, total trade of Ethiopia with the World, gross national expenditure, GDP growth and inflation in Ethiopia. However, all the selected factors were found to be non-significant factors. This also proves that the Ethiopia-EU trade is at a nascent stage of its development. Thus, there exists high potential to increase this trade pattern in future.

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