



# Ethiopia: Deepening Engagement with India through better Market Access

By Vinaye Ancharaz, Paolo Ghisu and Nicholas Frank  
ICTSD



International Centre for Trade  
and Sustainable Development



# Ethiopia: Deepening Engagement with India through better Market Access

---

By Vinaye Ancharaz, Paolo Ghisu and Nicholas Frank  
ICTSD



**Published by**

International Centre for Trade and Sustainable Development (ICTSD) International Environment  
House 2 7 Chemin de Balexert, 1219 Geneva, Switzerland

Tel: +41 22 917 8492  
E-mail: [ictsd@ictsd.ch](mailto:ictsd@ictsd.ch)

Fax: +41 22 917 8093  
Internet: [www.ictsd.org](http://www.ictsd.org)

Publisher and Director:  
Programme Team:

Ricardo Meléndez-Ortiz  
Vinaye Dey Ancharaz, Paolo Ghisu

---

**Acknowledgments**

ICTSD gratefully acknowledges generous financial support for this project from DFID India.

ICTSD wishes to gratefully acknowledge the support of its core and thematic donors, including the UK Department for International Development (DFID); the Swedish International Development Cooperation Agency (SIDA); the Netherlands Directorate-General of International Cooperation (DGIS); the Ministry of Foreign Affairs of Denmark, Danida; the Ministry for Foreign Affairs of Finland; and, the Ministry of Foreign Affairs of Norway.

The authors are also grateful to Jessica Wan for her assistance with this paper.

---

For further information on ICTSD and other work in this theme see [www.ictsd.org](http://www.ictsd.org)

Comments and feedback on this publication can be sent to the programme manager, Vinaye Dey Ancharaz ([VAncharaz@ictsd.ch](mailto:VAncharaz@ictsd.ch)) or to ICTSD's Managing Director for Communications and Strategy at [acrosby@ictsd.ch](mailto:acrosby@ictsd.ch)

Citation: Ancharaz, Vinaye; Paolo Ghisu; Nicholas Frank (2014); *Ethiopia: Deepening Engagement with India through better Market Access*; Issue Paper No. 35; International Centre for Trade and Sustainable Development, Geneva, Switzerland, [www.ictsd.org](http://www.ictsd.org)

Copyright ©ICTSD, 2014. Readers are encouraged to quote and reproduce this material for educational and non-profit purposes provided the source is acknowledged. The work is licensed under the Creative Commons Attribution-Noncommercial-No Derivative Works 3.0 License. To view a copy of this license, visit <http://creativecommons.org/licenses/by-nc-nd/3.0>.

The views expressed in this publication are those of the authors and do not necessarily reflect the views of ICTSD or the funding institutions.

ISSN 1995-6932

## TABLE OF CONTENTS

LIST OF TABLES, FIGURES AND BOXES	v
LIST OF ACRONYMS AND ABBREVIATIONS	vi
FOREWORD	vii
1. INTRODUCTION	1
2. AN ECONOMIC PROFILE OF ETHIOPIA	2
2.1. A Decade of Growth, Prosperity, and Social Development	2
2.2. Overcoming Shock: The Remarkable Performance of Coffee and Agricultural Exports	3
2.3. The Sources of Ethiopia's Global Exports and Imports	6
3. ETHIOPIA-INDIA TRADE	9
3.1. A Continuing Story of Partnership Through History	9
3.2. Economic Relations as the New Core of Ethiopian-Indian Relations	9
3.3. India's DFTP Scheme for LDCs	11
4. THE IMPACT OF THE DFTP SCHEME ON ETHIOPIA'S EXPORTS	13
4.1. Changes and Trends in Ethiopian Export Patterns to India	13
4.2. Comparing Export Trends to India and to the World	14
4.3. The Inclusiveness of the DFTP: Ethiopia's Key Export Products Do Not Enjoy Tariff Preferences	15
4.4. India's Limited Import Demand for Ethiopia's Main Exports	16
4.5. Ethiopia's Exports to India are Increasing but the Impact of the DFTP Has Been Limited	17
5. OTHER DETERMINANTS OF THE EFFECTS OF THE DFTP SCHEME: PRIMARY DATA-BASED EVIDENCE	18
5.1. Trade Policy and Export Strategy	18
5.2. Awareness of the DFTP Scheme	19
5.3. Design and Coverage of the DFTP Scheme	20
5.4. Supply-side Constraints	20
5.5. Export/Productive Capacity	21
6. INDIAN FOREIGN DIRECT INVESTMENT AND AID IN ETHIOPIA	22
6.1. Foreign Direct Investment in Ethiopia	22
6.2. Indian Foreign Direct Investment in Ethiopia	23
6.3. Indian Development Aid to Ethiopia	26
7. CONCLUSIONS	28
7.1. Summary of Key Findings	28
7.2. Policy Recommendations	29
7.3. Final Word	30

ENDNOTES	31
REFERENCES	35
ANNEX 1. CLASSIFICATION OF ETHIOPIA'S TOP 30 EXPORTS TO INDIA	37
ANNEX 2. ETHIOPIAN EXPORTS TO INDIA AND THE WORLD OF TOP 30 POST-DFTP EXPORTS TO INDIA	41
ANNEX 3. ETHIOPIA'S TOP 30 GLOBAL EXPORTS IN THE POST-DFTP PERIOD	43
ANNEX 4. ETHIOPIA'S TOP 30 GLOBAL EXPORTS AND INDIA'S IMPORT DEMAND IN THE POST DFTP PERIOD	45

## LIST OF TABLES AND FIGURES

- Table 1. Ethiopia's Global Product Exports in 2001, 2006, and 2012
- Table 2. Ethiopian Exports to India by Product Category, 2001, 2006, and 2012
- Table 3. Ethiopian Exports to India by Product Export Status (USD million)
- Table 4. Ethiopian Exports to India as a Share of Total Exports to the World
- Table 5. Awareness and Relevance of the DFTP Scheme Among Ethiopian Exporters
- Table 6. Largest Sources of Developmental Aid (2005-12)
- 
- Figure 1. Ethiopia's GDP Growth Rate (Constant Prices)
- Figure 2. Ethiopia's Global Exports, 2001-12
- Figure 3. Total Exports and Coffee Exports - A Comparison
- Figure 4. Direction of Ethiopia's Exports, 2001 and 2012
- Figure 5. Sources of Ethiopian Imports in 2012
- Figure 6. Ethiopia's Exports to India
- Figure 7. Main Constraints to Exporting to India
- Figure 8. FDI Net Inflows to Ethiopia
- Figure 9. Indian Investment and Employment (1998-2014): Agriculture, Manufacturing and Services
- 
- Box 1. Coffee: Ethiopia's Black Gold
- Box 2. The revised DFTP scheme

## LIST OF ACRONYMS AND ABBREVIATIONS

AACC	Addis Ababa Chamber of Commerce
AGOA	African Growth and Opportunity Act
COMESA	Common Market of East African States
DFTP	Duty-Free Tariff Preference
EAC	East African Community
EBA	Everything But Arms
EEPA	Ethiopia Export Promotion Agency
ETC	Ethiopian Telecommunications Corporation
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HDI	Human Development Index
HS	Harmonized System
LDCs	Least Developed Countries
LOC	Line of Credit
MFN	Most Favoured Nation
MOP	Margin of Preference
NTB/M	Non-tariff Barrier/Measure
RoO	Rules of Origin
SSA	Sub-Saharan Africa
WTO	World Trade Organization



## FOREWORD

It has long been recognised that, if trade can contribute to economic development, then trade preferences granted to developing countries' exports can be a potent means of achieving that goal. This was the rationale for the Generalized System of Preferences (GSP) when it was launched in 1971. There has been a constant call since then to improve upon the GSP and to provide more meaningful preferences to the least developed countries (LDCs). Over time, new schemes have emerged. Several of these schemes combine trade preferences with aid and technical assistance to ensure that preferences are effectively utilized. The evidence by and large suggests that those countries that have made optimal use of trade preferences have seen their exports increase significantly, boosting economic growth and reducing poverty.

While trade preference schemes have become more inclusive over the years, and rules of origin less onerous, the demand for improved preferences has not waned. Partly in response to this demand, WTO members, at the 2005 Ministerial Conference in Hong Kong, agreed that: "Developed-country members shall, and developing-country Members declaring themselves in a position to do so should, provide duty-free and quota-free (DFQF) market access on a lasting basis, for *all* products originating from all LDCs by 2008..." (emphasis added).

India was the first among the emerging economies to propose a duty-free market access scheme for LDCs following the Hong Kong Ministerial Declaration of 2005. The duty-free trade preference (DFTP) scheme, launched in August 2008, initially offered preferential tariffs on 94 percent of Indian tariff lines. A revision to the scheme in April 2014 extended duty treatment to 98 percent of tariff lines; yet it continues to exclude several products of export interest to LDCs. While the revised scheme goes in the direction of ICTSD's recommendations, the remaining exclusions point to some disconnect between the scheme's intent and its actual impact.

Little is known about the effectiveness of the recent initiatives by emerging economies, such as India and China, arguably because it is too early to assess their impact. In the case of the Indian scheme, however, more than five years after its launch, it is useful to take stock of how it has affected LDC exports, identify potential impediments and propose remedial measures for enhancing the scheme's effectiveness. This is the motivation behind this paper, and five other papers in a project that examines how India's engagement with LDCs - especially African LDCs - can be strengthened through trade relations and technological collaboration with a view to supporting growth and structural transformation in Africa's poorest economies.

In future work, ICTSD intends to apply the methodology used in this project to a thorough analysis of the Chinese trade preference initiative. The scheme, launched in January 2008, initially provided DFQF market access on select products to 33 African LDCs enjoying diplomatic ties with China; it was expanded in terms of product coverage and extended to all LDCs in July 2010.

At a time of little progress on the duty-free quota-free market access proposition of the Hong Kong Ministerial - other than the decision being reiterated in Bali in December 2013 -, the analysis and findings of this paper suggest that, not only should the major developing countries that have yet to come up with a trade preference scheme for LDCs do so in earnest, but those that already offer such preferences - both developed and developing countries - should reassess their schemes with a view to enhancing their effectiveness.



**Ricardo Meléndez-Ortiz**  
Chief Executive, ICTSD

## 1. INTRODUCTION

At the sixth Ministerial Conference of the World Trade Organization (WTO) in Hong Kong in 2005, Member states reaffirmed the importance of providing preferential market access to the exports of LDCs (least developed countries). The Hong Kong Declaration called on developed countries to provide duty-free, quota-free market access to LDCs on at least 97 percent of national tariff lines by 2008. Developing countries were requested to provide market access preferences to LDCs, depending on their capacity to do so.<sup>1</sup>

Although the Hong Kong Declaration was not legally binding on developing countries, it did pave the way for the provision of preferential market access for LDCs by major emerging economies such as China, India, and Turkey. LDCs currently enjoy preferential market access to developed countries under various bilateral and multilateral schemes, yet their exports face a variety of barriers, including limited product and country coverage, stringent rules of origin, and pervasive non-tariff measures. These factors, combined with severe domestic supply-side constraints that limit their competitiveness, make LDCs marginal players in world trade.

This study examines the implementation and impact of India's Duty-Free Trade Preference (DFTP) scheme on its trade relations with Ethiopia. India announced its preference scheme at the first India-Africa Forum in April 2008, and it came into force in August 2008. Open to all LDCs, the scheme provided preferential market access on 94 percent of Indian tariff lines when it became fully operational in October 2012. In April 2014, the scheme was revised. The number of products on the exclusion list was brought down from 326 to 97 while duty concession was extended to about 98 percent of tariff lines. Although the new scheme offers tariff preferences on a number of products of interest to LDC exporters, such as fruits and vegetables, rice, maize and metal products (other than copper), which were previously excluded, it nevertheless continues to exclude

several other products - for example, cashew nuts, coffee, tea, some spices and oilseeds, tobacco and copper products - in which some African LDCs have a notable comparative advantage

In order to gauge the impact of the DFTP scheme on Ethiopia's exports, this study analyses the level of coverage and relevance of the scheme in relation to its export basket, the level of utilization of tariff preferences for exports, and the performance of the country's exports to India and to the world. The study uses and analyses secondary data, mainly sourced from the United Nations Comtrade database. It considers whether Ethiopia's exporters are sufficiently aware of the scheme, and whether they are taking advantage of it. Finally, it examines how relations between the two countries in areas such as investment, technological collaboration, technical assistance and aid are helping, or could help, Ethiopia strengthen its export capacity globally and to India.

This study is divided into six sections. The following section provides an overview of the Ethiopian economy as well as a profile of the country's global exports. Section 3 describes its economic and trade relations with India and provides an outline of the DFTP scheme's architecture. Section 4 contains an analysis of export trends to India based on secondary data and relates these findings to the scheme's architecture. Section 5 complements the desk analysis with a survey of exporting firms and interviews with local stakeholders in Ethiopia. Section 6 provides an overview of Indian investment, aid, and technical assistance to assess their effect in enhancing the supply side and export capacities of Ethiopian producers and exporters. The concluding section summarizes the study's major findings and offers policy recommendations to enhance the effectiveness of the DFTP scheme, and measures to further support Ethiopia's export and productive capacity.

## 2. AN ECONOMIC PROFILE OF ETHIOPIA

### 2.1. A Decade of Growth, Prosperity, and Social Development

With a land area of roughly 110,000 square kilometres and a population of around 91.7 million, the Federal Democratic Republic of Ethiopia is one of the most populous landlocked countries in the world and the second most populous nation in Africa after Nigeria.<sup>2</sup> Ethiopia, like many LDCs, is a predominately agrarian economy with more than 80 percent of its population living in rural areas. Agriculture accounts for 79.3 percent of total employment, a little less than half of GDP, and 85 percent of export earnings.<sup>3</sup>

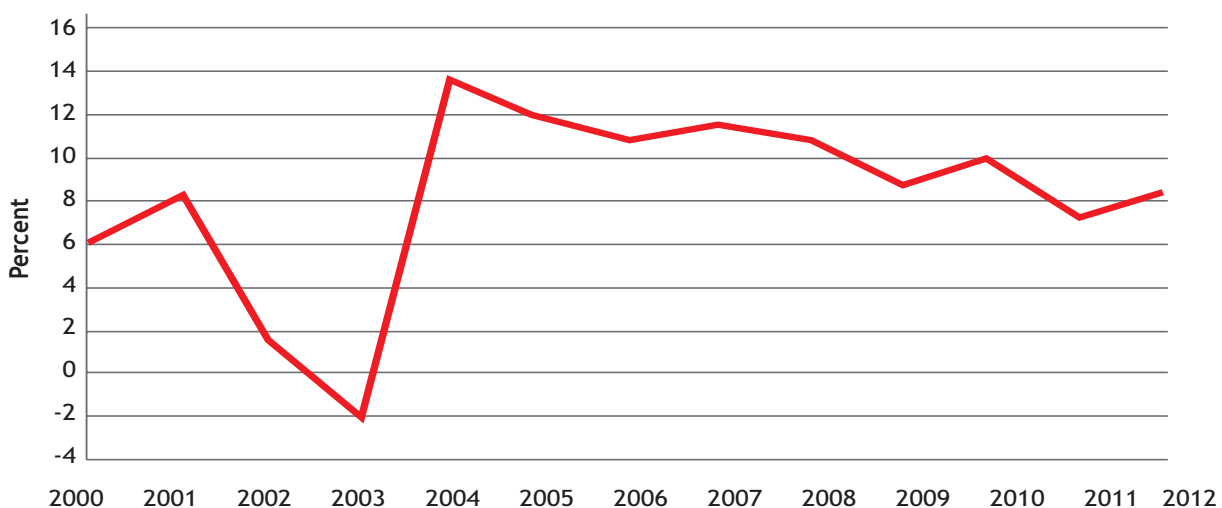
Ethiopia is still attempting to overcome the legacy of the disastrous command economy policies of the Derg period (1974-91).<sup>4</sup> During this time, the economy was severely mismanaged: the capital base was destroyed, the private sector suppressed, and the agricultural sector devastated. The Derg period prompted the mass emigration of talented Ethiopians, leaving the economy in a fragile and precarious position that required an almost total reconstruction of its fundamental institutions.

Over the last decade, Ethiopia has experienced strong and relatively broad-based growth and an impressive, although from a very low base, average gross domestic product (GDP)

growth rate of 10.6 percent between 2004-05 and 2011-12 (Figure 1). In comparison, the average growth rate for sub-Saharan Africa (SSA) over the same period was 4.9 percent.<sup>5</sup> The economy has expanded significantly after a severe drought-related contraction in 2002-03. In 2012, Ethiopia had a growth rate of 8.8 percent, which compares favourably with SSA's overall average of 5.5 percent.<sup>6</sup>

Economic growth was driven by sizeable expansions in the agricultural and services sectors. Service sector growth, at 10.6 percent in 2011-12, was boosted by the government's "pro-poor" policies and implementation of one of the largest social protection programmes in Africa. The agricultural sector grew by 4.9 percent in 2011-12. Increases in agricultural productivity were driven by favourable weather conditions, an expansion of cultivated land, and improved access to inputs such as fertilizers. The industrial sector recorded impressive growth rates (17.1 percent in 2011-12), but it is small in comparison to the rest of the economy. Despite positive growth in 2011-12, the sector's contribution to GDP has fallen from 13.6 percent to 11.5 percent since 2004-05. Improvements in the manufacturing sector were minimal in comparison. Demand-side growth was enhanced by sizeable increases in private consumption and gross capital formation driven by recent public investments.

Figure 1. Ethiopia's GDP Growth Rate (Constant Prices)<sup>7</sup>



Source: World Bank (2014).

Despite the recent record of economic growth, Ethiopia is a poor country. In terms of social indicators, average life expectancy is low (59.7 years), despite improvements in infant mortality rates. Currently, 31 percent of Ethiopians live on under USD 1.25 a day (in purchasing power parity).<sup>8</sup> The country's Human Development Indicator (HDI) score of 0.396 puts it well below the SSA average of 0.475, and the country is ranked 12 places from the bottom of the index. Ethiopia's HDI is comparable to the scores of Zimbabwe and Afghanistan.

Ethiopia's HDI position has improved over the last decade and significant strides have been made in meeting the challenges of poverty reduction, infant mortality, and universal primary education.<sup>9</sup> Ethiopia's GDP growth rate has not only kept pace with population growth (2.6 percent per year on average) but has exceeded it, which has resulted in significant poverty reduction. The poverty headcount ratio, as a percentage of the population, fell from roughly 39 percent in 2004 to approximately 30 percent in 2011.<sup>10</sup> If the country can maintain a GDP growth rate above 7 percent, poverty could be halved by 2015, making it one of the few countries to have achieved the related Millennium Development Goal (MDG).<sup>11</sup>

Ethiopian regional integration efforts are limited partly by the region's turbulent historical dynamics and a focus on a state-led development model (which includes the protection of domestic industries). While it is one of the founding members of the Common Market of East African States (COMESA), it has yet to join the free trade area.<sup>12</sup> It is also not party to the interim Economic Partnership Agreement reached by some COMESA member-states (Madagascar, Mauritius, Seychelles and Zimbabwe) with the EU in August 2009. It has opted to fall back on the Everything But Arms (EBA) initiative on the expiry of the EU Market Access Regulation on 1 October 2014. This might have implications for the country's trade and regional integration agenda.

Similarly, Ethiopia's WTO accession negotiations, which started in January 2003, have yet to be

concluded. Negotiations are stalled over its services offer as a number of strategic sectors, including finance, energy, and telecoms, would have to be opened up prior to the conclusion of its WTO accession agreement. This is something that the government is wary of doing because it runs counter to its state-led development paradigm.

## 2.2. Overcoming Shock: The Remarkable Performance of Coffee and Agricultural Exports

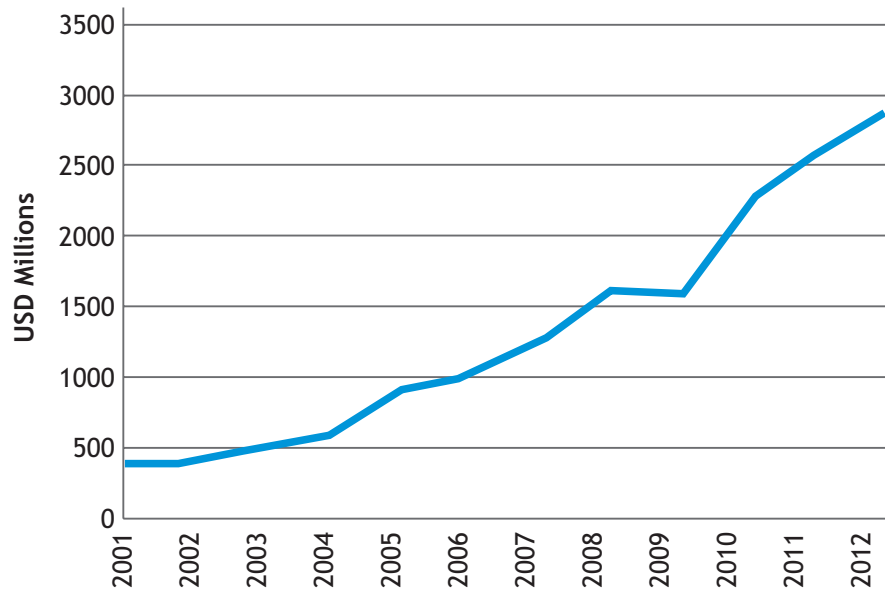
For the past decade, exports have shown fast and resilient growth (Figure 2). In 2002, Ethiopia exported a modest USD 400 million in goods, as exports of agricultural products were hit hard by famine<sup>13</sup> and by the global coffee crisis. However, by the end of 2003, exports had rebounded, increasing by approximately 24 per cent. From 2003 until the global financial crisis, Ethiopia maintained a steady double-digit export growth. In 2009, global demand for exports plunged dramatically, yet the country managed to keep its exports close to the previous year's level. By 2010, exports had rebounded, increasing by 44 percent, to USD 2.28 billion. Export growth, still high at 14 percent, tapered off slightly in 2011 and this continued in 2012, with exports growing just under 10 percent per year.

While exports have increased remarkably since 2002, they have shown limited signs of diversification. Like many LDCs, especially in Africa, Ethiopia's export basket is concentrated around a limited number of products, primarily agricultural. Ethiopia's top five exports—coffee, sesame seeds, sweet corn, gold, and fresh flowers—accounted for more than 66 percent of all export earnings in 2012. Vegetable exports as a share of total exports were high, accounting for about 75 of total exports in 2012, and animal products increased their share of total exports and grew in value from less than USD 3 million to more than USD 260 million in 2012 (Table 1).<sup>14</sup> Exports of stone/glass, of which gold accounted for roughly 93 percent, increased from less than USD 5 million in 2001 to more than USD 186 million in 2012. This is

also related to the fact that the spot price of gold increased from less than USD 300 per ounce at the beginning of 2001 to a little less than USD 1,800 per ounce at the end of 2012.<sup>15</sup> Exports of

textiles and clothing stagnated at 2.6 percent of total exports between 2001 and 2012, but they increased in value from less than USD 11 million in 2001 to more than USD 71 million in 2012.

Figure 2. Ethiopia's Global Exports, 2001-12



Source: UN Comtrade (2013).<sup>16</sup>

Table 1. Ethiopia's Global Product Exports in 2001, 2006, and 2012

Product	2001		2006		2012	
	Value <sup>17</sup> (USD million)	Share of total exports (%)	Value (USD million)	Share of total exports (%)	Value (USD million)	Share of total exports (%)
Animal	2.9	0.7	52.5	5.1	262.3	9.1
Vegetable	294.7	73.2	800.8	78.2	2,154.7	75.0
Food Products	2.0	0.5	12.03	1.2	16.5	0.6
Minerals	10.4	2.6	4.2	0.4	16.1	0.6
Fuels	0.02	<0.1	-	-	0.1	<0.1
Chemicals	0.3	0.1	0.8	0.1	5.5	0.2
Plastics/Rubbers	0.0006	<0.1	0.7	0.1	1.5	0.1
Hides/Skins	74.8	18.6	62.9	6.1	88.6	3.1
Wood	0.2	0.1	2.4	0.2	4.6	0.2
Textiles/Clothing	10.6	2.6	18.3	1.8	71.1	2.5
Footwear	0.1	<0.1	1.7	0.2	14.5	0.5
Stone/Glass	4.6	1.1	64.6	6.3	186.1	6.5
Metals	0.2	<0.1	2.5	0.2	5.4	0.2
Machinery/Electrical	1.7	0.4	0.7	0.1	17.6	0.6
Transport	0.01	<0.1	0.2	<0.1	21.4	0.7
Miscellaneous	0.1	<0.1	0.4	<0.1	8.4	0.3
<b>Total</b>	<b>402.6</b>		<b>1,024.7</b>		<b>2,874.3</b>	

Source: UN Comtrade (2013).<sup>18</sup>

**Box 1: Coffee: Ethiopia's Black Gold**

Ethiopia, considered the birthplace of coffee, is Africa's largest coffee producer and the fifth globally, with an estimated 380,000 metric tons produced in 2012.<sup>19</sup> Coffee has a long history of being the country's most important export item, with accounts maintaining that in the 14<sup>th</sup> century coffee was exported to the Arabian Peninsula. The country's mountainous regions are favourable for growing coffee, where the Coffee Arabica plant has always grown wild. Today, more than 90 percent of the coffee produced in the country grows organically.<sup>20</sup>

Coffee plays a key role in Ethiopian society, both at the cultural and economic level. More than half of all coffee produced is consumed locally and, at 2.4 kg a year, Ethiopia has the highest per capita consumption on the continent.<sup>21</sup> Coffee production and export are essential for the welfare of the economy, as it is estimated that more than 15 million people are involved in coffee production and that up to 20 percent of the population depends on the coffee industry, directly or indirectly. Strikingly, 95 percent of Ethiopian coffee is produced by smallholder farmers.

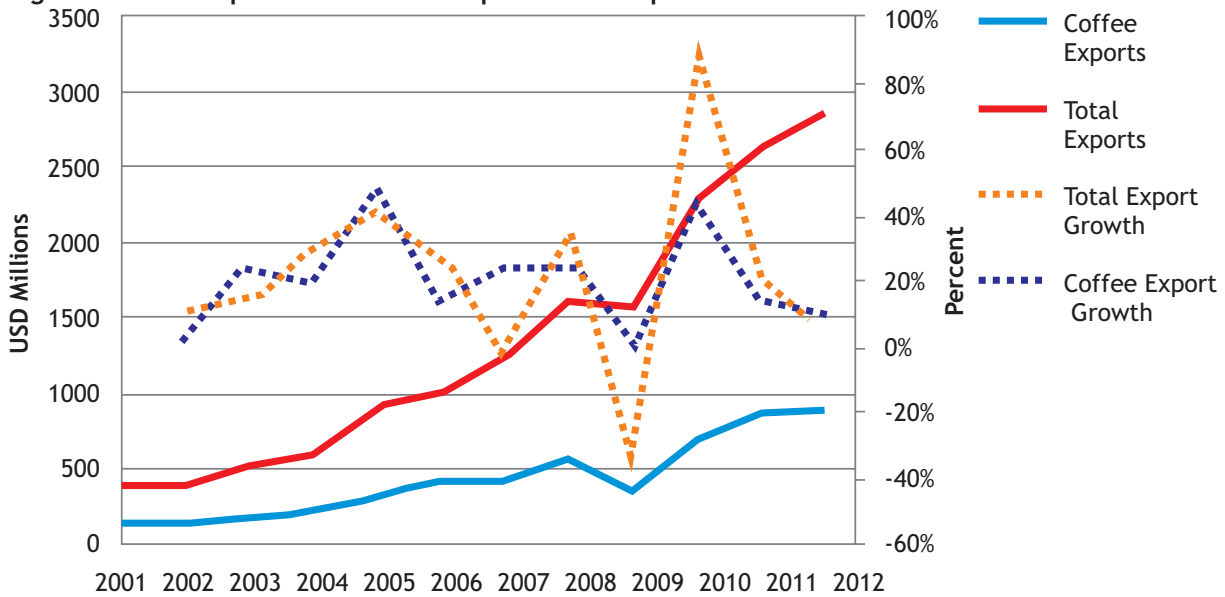
As demand for gourmet and fine coffee has developed over the last decade, Ethiopia and its coffee producers, eager to get a significant premium over non-distinct commodity coffee, have put a lot of effort to tap into the worldwide reputation of their product and reinforce the branding of Ethiopian coffee as one of superior quality. Through an intense marketing effort and intellectual property filings, Ethiopia has been able to raise consumer awareness of the quality of its coffee and increase its farmers' incomes significantly.<sup>22</sup>

Today, up to 30 percent of foreign exchange earnings come from coffee exports and are a pivotal component of total exports. Altogether, 54 percent of Ethiopia's coffee exports go to the EU while India absorbs a negligible quantity (0.1 percent).<sup>23</sup> Figure 1 shows that both Ethiopia's total exports and exports of coffee have enjoyed strong growth rates and that the fortunes of total exports are tied to those of coffee exports. The compound annual growth rate (CAGR) of total exports (18 percent) was slightly higher than that of coffee exports (16 percent), which suggests that while the importance of coffee exports has marginally declined over time, it remains the single most important component of the Ethiopian export basket.

Coffee is the world's second most traded commodity after oil. Like oil, coffee prices often exhibit extreme volatility. For example, the real price per kilogram of Arabica went up from USD 1.8 in 2001 to USD 5.5 in 2011, before falling to USD 3 in 2013.<sup>24</sup> The coffee industry has generated foreign exchange and provided employment to millions of Ethiopians, but its dominance makes the Ethiopian economy vulnerable to external shocks, underscoring the urgent need for effective economic diversification.



Figure 3. Total Exports and Coffee Exports - A Comparison



Source: Authors' calculations based on UN Comtrade (2013).

### 2.3. The Sources of Ethiopia's Global Exports and Imports

Since 2001, the major export destinations for Ethiopian goods have been Saudi Arabia, Switzerland, the US, SSA, and the EU (Figure 4).

Although Ethiopia's exports to the EU as a share of total exports have fallen since 2006, the EU is its most important export market. Exports increased in value from USD 111.2 million in 2001 to USD 818.9 million in 2012. The key European destinations for Ethiopian goods in 2012 were Germany (10.9 percent of total exports), Netherlands (6 percent), and Italy (2.7 percent). Switzerland is the country's most important non-EU western European market and has increased its share of exports in percentage and value terms. Exports increased from USD 8.3 million in 2001 to more than USD 176 million in 2012. Export growth to the EU and Switzerland has been driven, in part, by coffee, tea, oil seeds, and horticultural products.

The port of Djibouti is Ethiopia's primary export route, and roughly 80 percent of imports and exports transit through that country.<sup>25</sup> In 2001 Djibouti was Ethiopia's single largest African export destination, accounting for USD 71.4 million in exports, larger than

exports to Germany. Exports to Djibouti grew to USD 106 million in 2012, but its importance as an export destination has diminished, while exports to some countries from the South have increased in importance. Sudan and Somalia have recently emerged as important regional markets. In 2012, they absorbed USD 163 million and USD 260 million, respectively, of Ethiopia's exports. In contrast, countries of the East African Community (EAC) remain negligible trading partners.

Saudi Arabia, one of the country's historical trading partners, has maintained its share of total exports: exports grew from USD 37.8 million in 2001 to more than USD 191 million in 2012. They were mainly agricultural products, including oil seeds, pulses, meat products, and fruit and vegetables. It is estimated that Ethiopia exported roughly 10,000 metric tons of fruit and vegetables a month to Saudi Arabia in 2014.<sup>26</sup> The United Arab Emirates (UAE) increased its share of total exports, going from USD 6.4 million in 2001 to USD 80 million in 2012.

Despite increasing in value, from USD 37 million in 2001 to USD 75 million in 2012, exports to Japan, as a share of total exports, fell. China increased its share of total exports, with the value increasing from less than USD 4.5 million

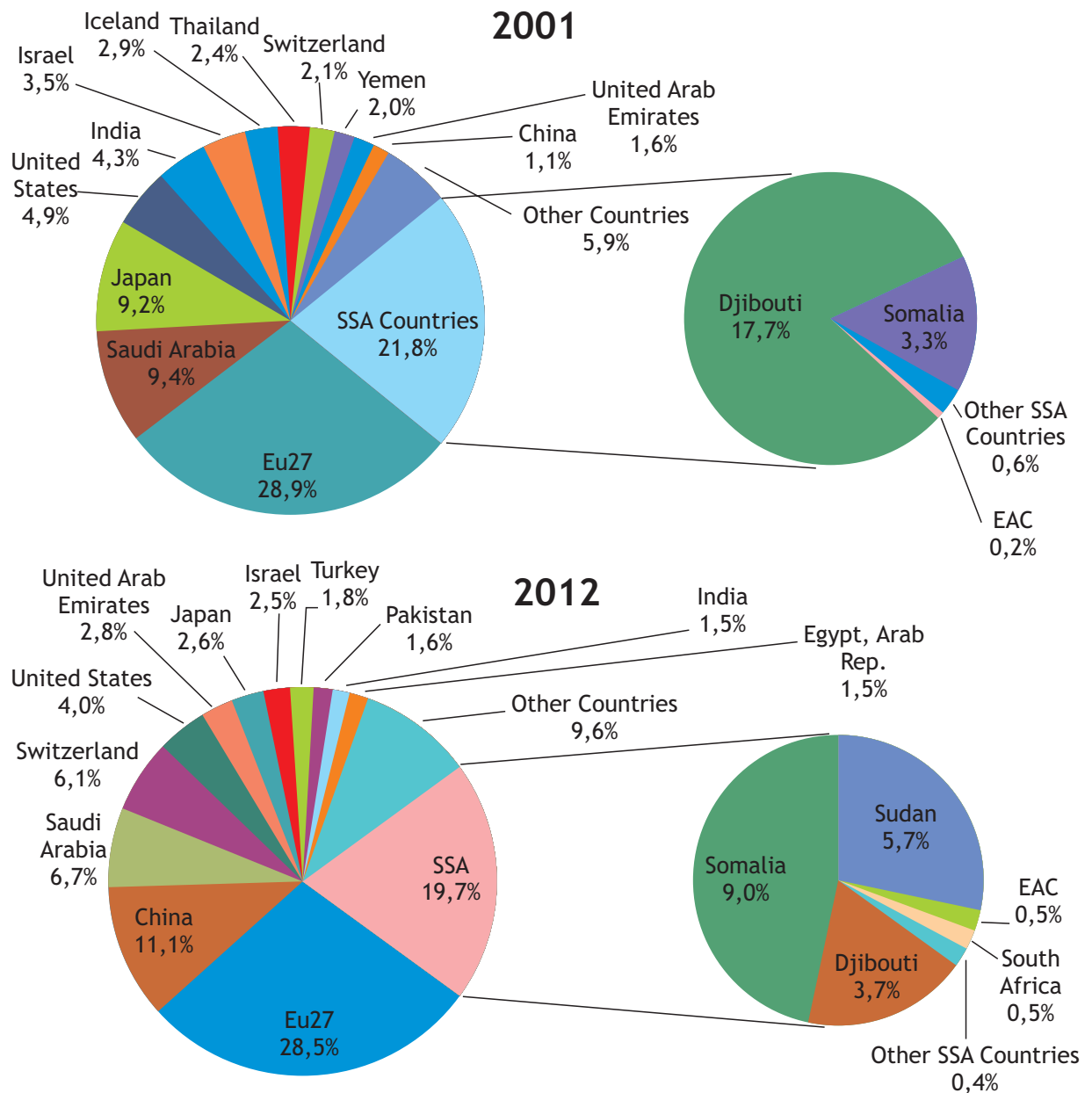
in 2001 to more than USD 320 million in 2012, making it Ethiopia's single biggest export market globally. The increase in exports to China coincides with it becoming a net importer of sesame seeds, and the primary destination for Ethiopian sesame exports. Ethiopia is the largest producer of sesame seeds in Africa and the fourth largest producer in the world.<sup>27</sup> India, Asia's other large emerging economy, is a marginal destination, taking in a mere 1.5 percent of Ethiopia's exports in 2012.

The EU-27 has historically been Ethiopia's main source of imports. But in 2012, the largest source of imports was China (23.5 percent),

followed by the EU (23.1 percent) and the US (19.6 percent). Of the EU-27 countries, the major exporters to Ethiopia in 2012 were Italy (5.2 percent), Belgium (4.1 percent), and Germany (3.4 percent). To a lesser extent, India, Turkey, and Japan have been important suppliers since 2001. Between 2006 and 2012, the greatest increase in imports came from China (growth of 255 percent in value).

Between 2001 and 2012, Ethiopia's total global imports increased from USD 853.7 million to USD 6.6 billion. The trade deficit increased significantly during this period, rising from USD 451 million to USD 3.7 billion.

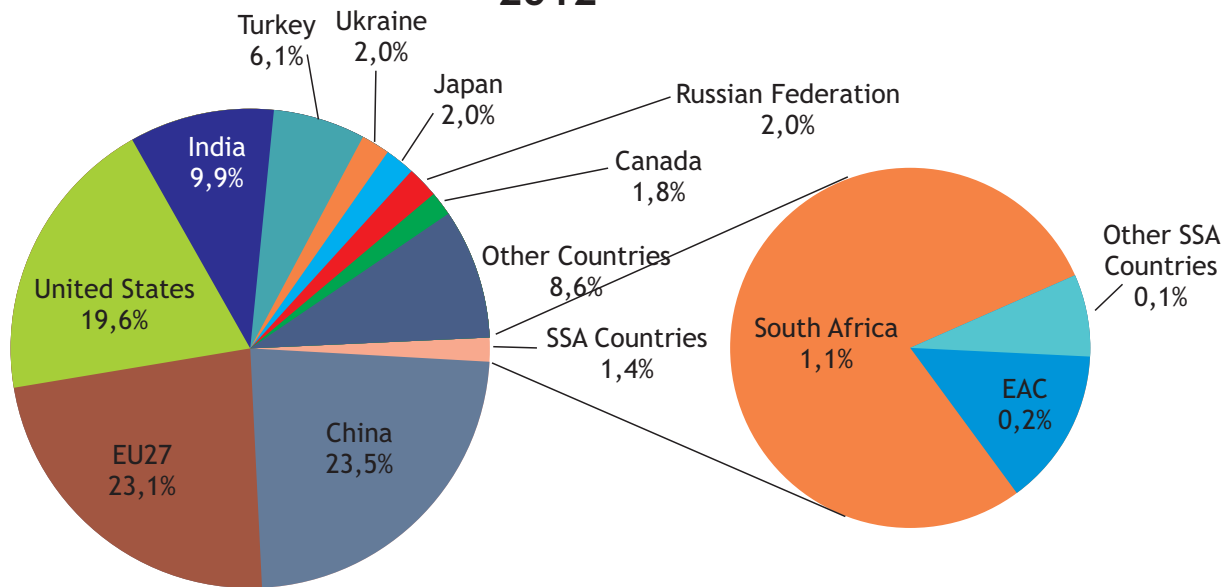
Figure 4. Direction of Ethiopia's Exports, 2001 and 2012



Source: Authors' calculations based on UN Comtrade (2014).



Figure 5. Sources of Ethiopian Imports in 2012



Source: Authors' calculations based on data UN Comtrade (2014).

### 3. ETHIOPIA–INDIA TRADE

#### 3.1 A Continuing Story of Partnership through History

Trade relations between Ethiopia and India are among the oldest in recorded history, going back to the first century A.D when merchants traded Indian silk and spices for Ethiopian gold and ivory. As the Ethiopian economy opened up after the closed years of the Derg period, commercial ties have sprouted, particularly in infrastructure projects such as ports, roads, power generation and water supply. Various bilateral agreements have been signed by the two countries. These include:<sup>28</sup>

- Air Services Agreement (1967), which was signed again in March 2008
- Agreement on Technical, Economic and Scientific Cooperation (1969)
- Cultural Agreement (1983)
- Trade Agreement (1997)
- Agreement on Cooperation in Micro Dams and Small Scale Irrigation Schemes (2002)
- Agreement on Establishment of Joint Ministerial Commission (2007)
- Bilateral Investment Promotion and Protection Agreement (2007)
- Agreement on Cooperation in the field of Science and Technology (2007)
- Educational Exchange Programme (2007)
- Protocol on Foreign Office Consultations (2007)
- Double Taxation Avoidance Treaty (2011)
- Memorandum of Understanding between NSIC, India and FEMSEDA (2011)
- Memorandum of Understanding between the Indian Council of Agricultural Research and the Ethiopian institute of Agricultural Research (December 2011)

#### 3.2 Economic Relations as the New Core of Ethiopian-Indian Relations

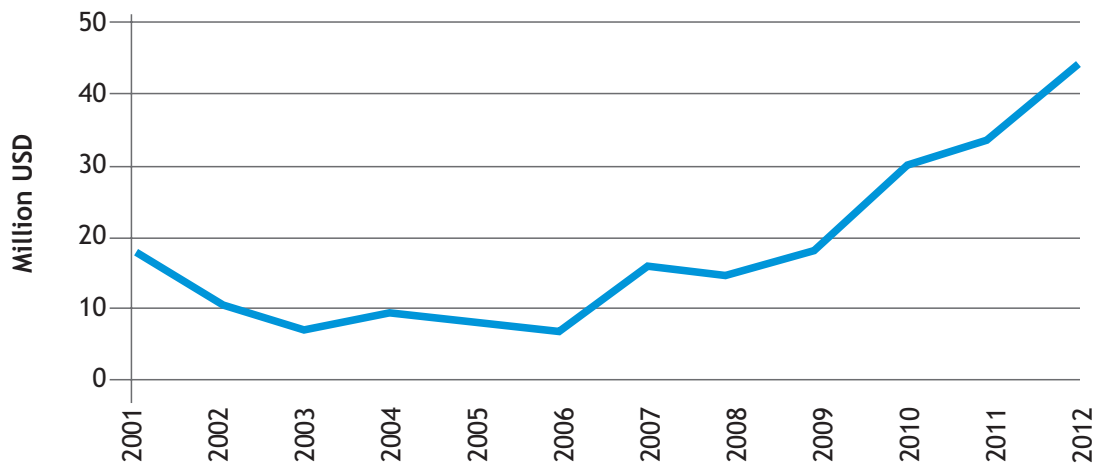
From 2002 to 2008, the value of Ethiopia's total exports to India was below the value of exports in 2001 (USD 17.4 million, Figure 4). By 2009, exports had recovered, surpassing the peak of 2001, and have since increased rapidly. Within three years, exports to India doubled, reaching USD 44.3 million in 2012. Despite these trends, India is a marginal export destination for Ethiopia's products, taking in a paltry 1.5 percent of its global exports in 2012. With imports from India reaching USD 643.5 million in 2012, and rising, the trade deficit has mounted to USD 600 million.<sup>29</sup>

Exports to India are primarily vegetable products, stone and glass, and hides and skins (Table 2). Textiles and clothing formed a significant share of total exports to India in 2001—22.3 percent. Despite the doubling of exports between 2006 and 2012 (although from a low base of USD 1 million), the share of this product had declined to 4.6 percent by 2012. The export of hides and skins increased in total value but decreased as a share of total exports.

Between 2006 and 2012, exports of vegetable products and stone and glass products increased in value and as a share of total exports. The export of vegetable products increased from USD 2.7 million to USD 28.5 million between 2006 and 2012. Overall, exports to India have shown limited signs of diversification since 2001.

The patterns of Ethiopia's exports to the world and to India are relatively similar, with vegetable products predominating. Although exports of textiles, and hides and skins have increased since 2006, their shares of total exports have decreased. Stone and glass are becoming an increasingly significant export to the world, and specifically to India.

Figure 6. Ethiopia's Exports to India



Source: UN Comtrade (2014).

Table 2. Ethiopian Exports to India by Product Category, 2001, 2006, and 2012

Product	2000		2006		2012	
	Value (USD million)	Share (%)	Value (USD million)	Share (%)	Value (USD million)	Share (%)
Animal	0.00	<0.1	0.01	0.1	0.0	<0.1
Vegetable	6.1	34.8	2.7	37.9	28.5	64.3
Food Products	0.00	<0.1	0.0	<0.1	0.1	0.3
Minerals	0.00	<0.1	0.01	0.1	0.1	0.2
Chemicals	0.00	<0.1	0.0	<0.1	0.3	0.6
Plastics/Rubber	0.00	<0.1	0.0	<0.1	0.0	<0.1
Hides/Skins	7.4	42.7	2.9	40.5	3.8	8.5
Wood	0.00	<0.1	0.01	0.2	0.01	<0.1
Textiles/Cloth	3.9	22.3	0.9	11.8	2.04	4.6
Footwear	0.00	<0.1	0.0	<0.1	0.0	<0.1
Stone/Glass	0.00	<0.1	0.0	<0.1	7.9	17.9
Metals	0.02	0.1	0.7	9.2	0.5	1.1
Machines/Electronics	0.00	<0.1	0.01	0.2	1.1	2.5
Transport	0.00	<0.1	0.0	<0.1	0.0	<0.1
Misc.	0.00	<0.1	0.0	<0.1	0.02	0.1
<b>Total</b>	<b>17.4</b>	<b>100.0</b>	<b>7.2</b>	<b>100.0</b>	<b>44.3</b>	<b>100.0</b>

Source: Authors' calculations based on UN Comtrade data (2014). This table is based on HS2002 data

### 3.3. India's DFTP Scheme for LDCs

Under the DFTP scheme, tariff lines are classified under three lists: Elimination List, Positive List, and Exclusion List. Customs duties for products on the first two lists have been phased down over five years starting August 2008. Before the revision of April 2014, the Elimination List contained 85 percent of India's total tariff lines (at the Harmonized System (HS) 6-digit level); these are tariff lines on which imports are admitted duty-free. The Positive List contained 9 percent of tariff lines or 458 items, which received an MOP ranging from 10 to 100 percent over MFN tariffs. Eighty-four percent of products on the Positive List receive an MOP of at least 50 per cent; only 53 tariff lines (11.5 percent of the Positive List) receive a margin lower than 15 percent (ICTSD 2014). The Exclusion List comprises 6 percent of total tariff lines, or 326 items. These products are subject to normal MFN rates.

Despite the scheme's comprehensive coverage, many products of key importance to LDCs, such as fruit and vegetables, coffee, tea, spices, cereals, tobacco products, oil seeds, iron and steel, and other metals, were on the Exclusion List.

On April 1, 2014, the Government of India published an amendment to the scheme via a notification in the national gazette. However, the new scheme was not disseminated until August 2014. During this time, the authors were not aware of the new scheme although they were expecting a revised scheme to be published soon. As such, the changes in the scheme are not reflected in the analysis contained in this paper, which was completed before August 2014, but this should not matter because the period of analysis employed in the study - typically 2004-2012 - predates the change.

In Box 2, we summarize the main changes in the DFTP scheme. In so far as Ethiopia's trade relations with India are concerned, the changes are of little consequence. This is because the new scheme continues to exclude Ethiopia's key export products - coffee, sesame seeds, other oilseeds, and copper waste and scrap. As we explain in the paper, the reasons for Ethiopia's low utilization of the DFTP scheme lie elsewhere - poor trade complementarity, lack of awareness of the scheme, low export dynamism and myriad domestic supply-side constraints.

#### Box 2: The revised DFTP scheme

On April 1, 2014, the Government of India published in the Gazette of India a notification that brought further amendments to the DFTP scheme announced on August 13, 2008. The notification includes two tables that are meant to replace the corresponding lists of preference products (that is, products on which lower-than-MFN tariffs are applied) and excluded products in the original notification. Both lists are significantly shorter than their original versions. With these changes, the DFTP scheme will now effectively provide duty treatment to about 98 percent of tariff lines, up from 85 percent initially.

The number of tariff lines in the exclusion list has shrunk from 326 to 97; the new MOP list features 114 tariff lines compared to 468 originally. This means that 229 products have been moved out of the exclusion list. The majority of them now enjoy duty-free status; only a few products - notably fresh tomatoes, almonds (shelled) and walnuts - have been shifted from the exclusion list to the "positive list" with a margin of preference (MOP) of 25 percent. Among the products that have been fully liberalized are rice, maize, most fruits and vegetables (except fresh apples and onions), and waste and scrap of most metals (except copper).

Nevertheless, the new scheme continues to exclude a number of products of key export interest to LDCs, especially African LDCs. These include milk and cream (with sugar), whole

**Box 2: Continued**

milk powder, some fruits and vegetables (e.g. apples and onions), cashew nuts, coffee, tea, some spices and oilseeds (e.g. linseed, sesame), wheat flour, beer, wine and spirits, tobacco and cigarettes, and copper and related products (e.g. bars, rods, cathodes, waste and scrap).

Finally, while over 350 tariff lines from the MOP list are now 100 percent duty-free, it appears that both the exclusion list and the positive list feature products that were not there initially. While this could be a statistical anomaly (we notice, for example, that many of these products are at the 8-digit HS level instead of the traditional 6-digit level), we suspect that some tariff lines from the duty-free list may now be subject to tariffs, or excluded altogether. Further analysis is needed to confirm if this is indeed the case.

*Source: Authors' analysis based on information on the changes to the DFTP scheme published in the Government of India gazette. Available at: <http://www.cbec.gov.in/customs/cs-act/notifications/notfns-2014/cs-tarr2014/cs08-2014.htm>*

Under the DFTP, preference products (duty-free products or MOP products) can be exported to India at concessional rates provided they comply with the rules of origin regime. To be eligible for tariff preferences, products need to simultaneously satisfy the following conditions:

- a. at least 30% domestic value addition;
- b. a change in tariff heading; and
- c. the final process of manufacture performed in the territory of the exporting country.

Cumulation of value is allowed only for inputs from India and not from other parts of the world.

As of June 2014, 29 LDCs are beneficiaries under the DFTP scheme—seven of them are in the Asia-Pacific region and 22 are in Africa. Ethiopia was among the first LDCs to apply to join the scheme, and Ethiopian exporters have been able to use the DFTP scheme since August 2008.

The next section will assess the impact of the scheme on exports on the basis of secondary data sourced mainly from the UN Comtrade database. It analyses export trends to India and to the world before and after the DFTP scheme came into effect in 2008. The analysis is conducted at the HS 6-digit level and looks at trends for the three categories of products defined in the DFTP scheme.

## 4. THE IMPACT OF THE DFTP SCHEME ON ETHIOPIA'S EXPORTS

Preferential market access has the potential to stimulate exports to India. There are other factors that also affect exports and the potential impact of the scheme: Ethiopia's supply-side capacities, India's imports demand, trends in the world economy, and so on. Therefore, assessing the performance of the scheme is a complicated task. Ideally, one should control for exogenous variables affecting the scheme's impact using econometric analysis, but the short period in which the scheme has been operational makes such analysis infeasible.

Our method uses a pre-/post-DFTP analysis to gauge the impact of the scheme on exports. This involves comparing average values for the pre-DFTP period (usually 2005-07) with the post-DFTP period (2009-11), using 2008—the year the scheme was launched—as the cut-off point. This approach attributes any increase in exports post-DFTP to the scheme. While this may be objectionable for the reasons mentioned above, we try to improve our analysis by considering percentage growth and shares in total exports, disaggregating the analysis by product list and Ethiopia's top 30 exports, and comparing the latter against India's import demand.

Some data issues need to be mentioned. Indian customs data and the UN Comtrade database do not provide detailed information on whether exports to India take place under a specific preferential arrangement or on an MFN basis. This forces us to assume that all of Ethiopia's exports to India are under the DFTP scheme. In practice, this may not be the case. For instance, obtaining certificates of origin may be a cumbersome process and not worth the hassle where the margin of preference is small. In other cases, exporters might not be aware of the opportunities offered by the scheme.

Moreover, as noted above, the analysis presented here is based on the pre-April 2014 version of the DFTP scheme. The recent

changes to the scheme are not taken on board because they came when the paper was already in the publication pipeline. Nevertheless, the analysis remains valid - for at least two reasons: first, the analysis covers the period 2004-2012 and is therefore unaffected by the April 2014 revision. Second, as we argue in the paper, the changes to the scheme do not necessarily improve Ethiopia's capacity to utilize the trade preferences more fully.

With these caveats in mind, we examine the scheme's impact by comparing Ethiopia's export trends before and after the scheme came into effect. In the following sections, we compare average exports in the post-DFTP period with average exports in the pre-DFTP period for preference (duty-free and MOP products) and exclusion products for Ethiopia's top 30 export products defined at the HS 6-digit level. Export trends to India and to the world are compared. Finally, India's import demand for Ethiopia's key exports is analysed to determine likely causes of changes in its trade with India.

These indicators provide a comprehensive picture of the impact of the scheme, subject to the above caveats. For example, if exports of preference products to India are increasing faster than exports of the same products to the world, it might suggest that Ethiopia is taking advantage of the scheme. A stagnation or decline in exports of preference products to India and to the world could be related to the fact that export capacity in these products may have declined in recent years. The decline in exports could also be attributed to a decline in India's global import demand for these products.

### 4.1 Changes and Trends in Ethiopian Export Patterns to India

Like many LDCs, Ethiopia's export basket is concentrated around a limited number of products. Agriculture makes up the lion's share of total exports, accounting for 75 percent

in 2012. Therefore, the export analysis in this and in the following sections has been limited to Ethiopia's top 30 export products to India defined at the HS 6-digit level. These products accounted for about 96 percent of total exports to India pre-DFTP, and roughly 90 percent post-DFTP. The analysis of the top 30 export products will give a comprehensive picture of total exports.

Table 3 shows the average exports of top 30 exports to India and compares the growth rates of exclusion, MOP, and duty-free products between the post- and pre-DFTP periods. Between the two periods, the export of duty-free products showed the highest growth rate (251 percent), followed by exclusion products (235) and MOP products (148 percent). Even though the combined share of duty-free and MOP products over total top 30 exports declined slightly in the post-DFTP period (1.6 percent), preference products formed almost 85 percent of Ethiopia's export basket to India. Duty-free products made up almost half of the export value in the post-DFTP period and their share increased by almost 7 percent in comparison with the period immediately before the scheme came into effect.

The three tables in Annex 1 contain a breakdown of the top 30 export products to India in the two periods considered. In the post-DFTP period, five products were on the Exclusion List, nine enjoyed MOP, and 16 were traded on duty-free terms. In comparison with the pre-DFTP period, there were two additional duty-free products, the number of MOP products remained the same, and the number of exclusion products declined (seven in the pre-DFTP period).

While there were some changes in the composition of exports (at the HS 6-digit level), the main exports to India included leather, hides and skins, precious stones and agricultural products (sesame seeds, legumes, cotton, and so on).

Overall, it appears that the DFTP scheme has stimulated exports of preference products to India, particularly duty-free products, in a context where exports were already growing rapidly. However, the benefits could be bigger if India would eliminate or reduce tariffs on agricultural products and other products of export interest to Ethiopia that are currently on the MOP or exclusion lists.

**Table 3. Ethiopian Exports to India by Product Export Status (USD million)<sup>30</sup>**

Product Classification	Pre-DFTP (2004-07)		Post-DFTP (2009-12)		Growth (%)
	Average Exports	Percent age of Top 30 Exports (%)	Average Exports	Percent age of Top 30 Exports (%)	
Duty-Free	5.3	42.7	18.6	49.2	250.9
Exclusion	1.7	13.7	5.7	15.1	235.3
MOP	5.4	43.6	13.4	35.5	148.2
<b>Total Avg. Exports of top 30 Products</b>	<b>12.4</b>		<b>37.8</b>		<b>204.8</b>
<b>Total Avg. Exports</b>	<b>13.0</b>		<b>42.0</b>		<b>223.1</b>

Source: Authors' calculations based on UN Comtrade data (2014).

Note: Table based on HS2002 data.

#### 4.2 Comparing Export Trends to India and to the World

This section compares exports to India and to the world before and after 2008 to find out whether India has become a more attractive destination

and if the scheme's tariff preferences have contributed to that. Table 4 details the performance of duty-free, MOP, and exclusion products to India and the world between the pre- and post-DFTP periods.<sup>31</sup> The table confirms that India is a marginal destination, despite



the export growth in the last few years. In the post-DFTP period, India accounted for only 1.8 percent of global exports (of top 30 products to India). This share increased by just 0.4 percent compared to the pre-DFTP period.

The situation varies among the three categories of products. India's share of exports of

duty free products increased by 3.3 percent, from 1.8 percent before 2008 to 5.1 percent in the post-DFTP period. The DFTP might have made India a more attractive destination for duty-free exports. Over the same time, the share of MOP exports to India declined by 1.6 percent, whereas the share of exclusion products remained unchanged.

**Table 4. Ethiopian Exports to India as a Share of Total Exports to the World<sup>32</sup>**

	Exclusion	MOP	Duty Free	Total Average Exports (of Top 30 Products to India)
<b>Ethiopian Exports to India (USD million)</b>				
Pre-DFTP	1.7	5.4	5.3	12.4
Post-DFTP	5.7	13.4	18.6	37.8
<b>Ethiopian Exports to the World (USD million)</b>				
Pre-DFTP	519.5	96.1	292.3	907.9
Post-DFTP	1,435.2	332.3	365.6	2,133.1
<b>Ethiopian Exports to India as a Share of Exports to the World (%)</b>				
Pre-DFTP	0.3	5.6	1.8	1.4
Post-DFTP	0.4	4.0	5.1	1.8
<b>Difference</b>	<b>0.1</b>	<b>-1.6</b>	<b>3.3</b>	<b>0.4</b>

Source: Authors' calculations based on UN Comtrade data (2014).

Note: Table based on HS2002 data.

Annex 2 further disaggregates the trends in exclusion, MOP, and duty-free products that Ethiopia exports to India and the world at the HS 6-digit level in order to pick up differences and changes in their composition. The results of this analysis should be viewed with caution since, in certain cases, they are dependent on very low base values where small changes, positive or negative, generate a large percentage change, distorting the overall analysis.

On the whole, exports of duty-free products to India matched, and in some cases outpaced, Ethiopia's global exports of those products. Exports of MOP products too matched the performance of global exports. In terms of exports of exclusion products, however, global exports outperformed exports to India.

Ethiopia's top export to India in the post-DFTP period, tanned crust skins, a duty-free product, witnessed tremendous growth in

exports to India and to the world. Although the value of exports of this product to India in the pre-DFTP period was insignificant, it now holds a 23.9 percent share in the value of total exports in the post-DFTP period. Other top exports to India, including kidney beans, sesame seeds, dried legumes, oil seeds, and leather, also saw substantial growth in exports to India and to the world.

#### **4.3 The Inclusiveness of the DFTP: Ethiopia's Key Export Products Do Not Enjoy Tariff Preferences**

To further determine the benefits Ethiopia may derive from the DFTP, this section analyses the coverage of the scheme in relation to Ethiopia's exports to the world.

The DFTP provides for preferential treatment (duty free or MOP) to 94 percent of Indian tariff lines, whereas 6 percent of tariff lines are on the Exclusion List and can be exported



at MFN tariffs. In value terms, excluded products make for 15 percent of LDCs' global exports in the post-DFTP period (ICTSD 2014). The share of exclusion products in the total exports of individual countries ranges from 0.1 percent (Lesotho) to 82.4 percent (Burundi) (ICTSD 2014). In the case of Ethiopia, many products of export interest, accounting for about two-thirds of Ethiopia's global exports, are on the Exclusion List.

Annex 3 presents Ethiopia's top 30 export products to the world in the post-DFTP period. Ten of them are on the DFTP Exclusion List and are traded on MFN terms, nine are on the MOP list, and 11 are duty-free. Among these, exclusion products accounted for 67.3 percent of global exports (about USD 1.5 billion in value), followed by duty-free products (17.1 percent) and MOP products (15.6 per cent). If we narrow the analysis to the top 10 global export products, five are on the Exclusion List, accounting for almost 64 percent of Ethiopia's top global exports. These numbers indicate that the current architecture of the scheme is not favourable to Ethiopia as many products of export interest such as coffee, sesame seeds, sweet corn, oil seeds, other agricultural products and certain types of meat are not granted preferential market access.

A comparison of the top 30 export products to India and the top 30 export products to the world (which are listed in Annex 2 and 3, respectively), reveals that ten are common to both. Of these ten products, three are on the Exclusion List (sesame seeds, oil seeds, and sweet corn); five are MOP products (kidney beans, chickpeas, lentils, dried legumes and ginger); and two (leather, and hides and skins) are duty-free products. Further liberalization of tariffs on products with low margins of preference as well as reduction or elimination of tariffs on products on the Exclusion List would help boost exports to India, given Ethiopia's comparative advantage in those products.

Ethiopia's top global export, coffee, does not appear among the top exports to India despite

its worldwide imports of about USD 68 million worth of coffee per year in the post-DFTP period (see next section on India's import demand). Coffee and coffee products do not enjoy preferential market access under the current DFTP scheme and face an ad valorem duty of 100 percent while entering the Indian market.<sup>33</sup> Providing tariff preferences to coffee and coffee products would probably increase exports of coffee to India.

#### 4.4 India's Limited Import Demand for Ethiopia's Main Exports

Exporters can take advantage of market access under the DFTP provided India has a sufficiently high level of import demand for Ethiopia's products. For this purpose, Ethiopia's top 30 export products to the world (in the post-DFTP period) are compared to Indian global import demand for those products to determine whether demand exists. The details of this comparison are reported in Annex4.

During the post-DFTP period, Ethiopia's top 30 global export products made up a mere 1.02 percent of India's global imports. Apart from semi-manufactured gold and cane sugar (0.56 percent and 0.12 per cent, respectively), the rest of its top 30 global exports individually accounted for less than 0.1 percent of India's total global imports. There appears to be little complementarity between Ethiopia's exports and India's global demand, which is a major limiting factor for exporters.

To supplement our assessment of Ethiopia's export complementarity with India, we used an export complementarity index designed to measure the level of complementarity between exports and imports. The index was based on the following equation:

$$EPI = 100 \left[ 1 - \sum_k |x_k - m_k| / 2 \right],$$

where  $x_k$  is the share of product  $k$  in the exporting country's global exports and  $m_k$  represents the share of product  $k$  in the importing country's global imports.

The index is inspired by the trade complementarity index (TCI) that has been widely used in assessing the potential for trade among partners in a regional bloc. However, our formula is different in its application, in that it focuses on one country's (Ethiopia's) potential to export to another country (India) based on the import needs of the latter. In its current construct, the index is an export potential index, and it is in this sense that we use it in our analysis. Our EPI is easier to implement than the standard TCI since it is less data-demanding. We compute it at the HS 6-digit level across all of Ethiopia's tariff lines.

The EPI ranges between zero and 100. An index score of 100 would indicate that perfect complementarity exists between the two countries while a score of zero would show the opposite. Ethiopia's index score of 37.25, which is low and well below the cut-off point of 50, confirms that there is limited potential for Ethiopia to export to India.

#### **4.5 Ethiopia's Exports to India Are Increasing but the Impact of the DFTP Has Been Limited**

While exports to India declined in the first part of the 2000s, they nearly doubled between 2009

and 2012. In 2012, exports were valued over USD 44 million. India is of growing importance as an export destination for Ethiopian products. However, it is a less important market than the EU, China, Switzerland, and regional partners (particularly Somalia and Sudan).

This section, which is mainly based on secondary data from the UN Comtrade database, suggests that Indian tariff preferences might have boosted Ethiopia's exports to India. Exports of preference products, particularly duty-free products, increased rapidly in the post-DFTP period. Even though their share of total exports showed a small decline, duty-free and MOP products formed about 85 percent of total exports.

The analysis also suggests that the current architecture of the DFTP is not favourable to Ethiopia. Various products of export interest such as coffee, sesame seeds, oil seeds, other agricultural products and certain types of meat are not granted preferential market access, whereas other products enjoy a small MOP. Further liberalization of tariffs on products with low MOP as well as reduction or elimination of tariffs on products on the Exclusion List would help boost exports to India.

## 5. OTHER DETERMINANTS OF THE EFFECTS OF THE DFTP SCHEME: PRIMARY DATA-BASED EVIDENCE

The above analysis indicates that Ethiopia's exports to India have tripled between the pre- and post-DFTP periods. Exports of all three product categories—excluded, MOP and duty-free—have increased. These trends make it difficult to determine whether they can be attributed to the DFTP scheme alone when exogenous factors cannot be controlled for. One might expect exports of preference products to increase while exports of excluded products do not, or do not increase as fast as the former. Our calculations in Table 4 suggest that this is not the case: whereas exports of preference products (that is, MOP plus duty-free products) increased by 199 percent post-DFTP, excluded-product exports increased even faster (235 percent). Exports of duty-free products alone increased the fastest (250 percent). Another positive development that may be credited to the DFTP scheme is that India's share of Ethiopian exports edged up—although marginally from 1.4 percent to 1.8 percent—after the scheme came into effect.

On the whole, the analysis, though inconclusive, indicates that the DFTP scheme had a favourable impact on exports. In an attempt to verify this claim, we analyse, in this section, survey data and local stakeholders' views to complement our desk research. A survey of exporting firms was carried out by an Ethiopian consultant contracted by ICTSD.

Thirty exporters of Ethiopia's top five export products—coffee, fruit and vegetables, oil seeds, pulses and spices, and leather (raw or processed)—were interviewed. A majority of the firms have been in the business for more than six years. Many of them export a variety of products, which makes it difficult to provide a breakdown by sector. Over half of the firms (57 percent) said that India was one among the markets that they exported to. However, from the information received, it is difficult to judge how important the Indian market is. The main products exported to India are fruit and vegetables, pulses and spices, and oil seeds.

In addition to the survey of exporters, ICTSD conducted telephone interviews with select Ethiopian stakeholders. Unfortunately, a variety of problems—including incorrect or outdated contact information, poor communication, refusal by key stakeholders to give an interview, and a general lack of awareness of the DFTP scheme or of Ethiopia-India trade relations—beset our discussions with Ethiopian organizations. In the end, only one interview—with the Addis Ababa Chamber of Commerce (AACC)—proved useful. While we draw on this interview, we shall bear in mind that the views expressed may be subjective.

### 5.1 Trade Policy and Export Strategy

A valid export strategy provides critically needed impetus to exports in most developing countries. There is no clear, comprehensive, stand-alone export strategy in Ethiopia, but there is a spectrum of policies, plans and strategies, including the Trade and Industrial Policy (TIP), the Growth and Transformation Plan and the Agriculture-led Industrialization Strategy. There are also a number of institutional processes catering to the "export strategy." For example, the National Export Steering Committee, chaired by the Prime Minister, is responsible for policy monitoring and trouble-shooting. A National Coordination Committee, under the chairmanship of the Deputy Prime Minister, looks specifically at trade expansion, foreign direct investment (FDI) and technology transfer. These committees meet once a month. Information to assess their effectiveness is not available.

The TIP focuses on the promotion of agriculture-led industrialization, export development, and expansion of high-value, labour-intensive industries such as agro-processing, textiles, leather and footwear, and pharmaceuticals. Diversification is a key objective of the TIP, but it is often simply taken for granted rather than actively promoted. Export industries benefit from favourable land lease rates, soft loans, and fiscal and other incentives.

The Ethiopia Export Promotion Agency (EEPA) was set up in 1998 to provide a variety of support services, including training, market intelligence and assistance to link up with potential buyers abroad, and to participate in regional and international trade fairs. However, it has proved challenging to find information about the EEPA on the Internet; no functional website exists. This raises doubts about the capacity of the Agency to fulfil its role, reminding us of the constraints that similar agencies in Tanzania and Uganda face.

The AACC nevertheless believes that Ethiopia's export strategy is being effectively implemented. This claim could not be verified. However, one can assess the effectiveness of the strategy by the extent to which it has achieved its objectives. Exports have substantially increased in value since the creation of the Agency. At least part of this increase is due to higher commodity prices, especially for coffee and gold, two of Ethiopia's key exports. Manufactured exports (for example, textile and clothing) have also increased in value; as a share of Ethiopia's total exports, however, they have stagnated over the past decade. This raises doubts about the effectiveness of the "export strategy", with export diversification at its core. Exports remain concentrated in a few agricultural and mineral products. Attempts at promoting agro-processing industries have yet to show results.

## 5.2 Awareness of the DFTP Scheme

The survey reveals that a majority of firms (57 percent) are not aware of the Indian DFTP

scheme even though three-quarters of them admit that such duty-free schemes are "very important" for their export business (Table 5). The AACC indicated that trade-related institutions and sector organizations are, in principle, aware of the scheme and that it is their responsibility to disseminate this information to their members. The survey data, however, leads us to believe that this was not adequately done.

While we may speculate about the reasons for this apparent lack of communication between the export organizations and the exporters, capacity constraints at the level of the export organizations are a prime suspect. Of the 13 firms that claimed knowledge of the DFTP scheme, none said that it learned about it from a sector association or other export organizations. The Chambers of Commerce seem to be doing a fairly good job in this regard, but they could do better.

The Government of Ethiopia and, more so, the Government of India are not doing enough to publicize the scheme. We have learned from our fieldwork elsewhere in Africa that the Indian authorities expected beneficiary countries to be more proactive in seeking information about the scheme, arguing that they had done their fair share by voluntarily opening up their market. But if the Government of India is serious about its intentions, it should do more to ensure that the scheme is used by a larger number of exporters. This requires making it more relevant to LDC exporters and also bringing it to the attention of exporters.

**Table 5. Awareness and Relevance of the DFTP Scheme Among Ethiopian Exporters**

Importance of Duty-free Schemes for Exporting	Very Important 22 (73%)	Of Average Importance 6 (20%)		Not Important 2 (7%)
Awareness of Indian DFTP Scheme	Aware 13 (43%)	Not Aware 17 (57%)		
Means of Getting Information About the Indian DFTP Scheme (for those aware of the scheme)	Gov't of Ethiopia 2 (15%)	Gov't of India	Own Market Research 1 (8%)	Other Chambers of Commerce (8, 62%) Other exporter (2, 15%)
Did the DFTP Scheme Motivate You, or will it Motivate You, to Export to India?	Yes 23 (77%)	No 3 (10%)		

Source: ICTSD survey data.

### 5.3 Design and Coverage of the DFTP Scheme

The issue of relevance of the Indian scheme (before the April 2014 changes) came up repeatedly in the interviews. The AACC noted that Ethiopian exporters utilize the EBA and the African Growth and Opportunity Act (AGOA) to export to the EU and the US, respectively, and that a significant amount of exports to China takes place under the Chinese duty-free scheme. The Indian scheme is much less attractive than these initiatives since it excludes three of Ethiopia's top export products. For example, while some amount of sesame seeds is exported to India, the bulk of it (99 percent, according to the AACC) goes to China where the product enjoys duty-free treatment. The same can be said of coffee. Both coffee and sesame seeds, along with a host of other products, are excluded under the DFTP scheme.

When exporters were asked if the DFTP scheme would encourage them to export to India, over three-quarters of them said it would. While this result is likely to be biased since the question was answered with little prior knowledge of the scheme, including by those who previously admitted that they had not heard about the scheme before the interview or were not aware of its details, it illustrates that a comprehensive scheme might boost exports by motivating those already exporting to India to expand while attracting potential new exporters.

The interviews, incidentally, highlight the growing importance of China as an export destination. The AACC notes that approximately 20 certificates of origin are issued per day for exports to China whereas the frequency for India is at best one per week. Another reason for the low level of exports to India is willingness to pay. These exports fetch a much lower price

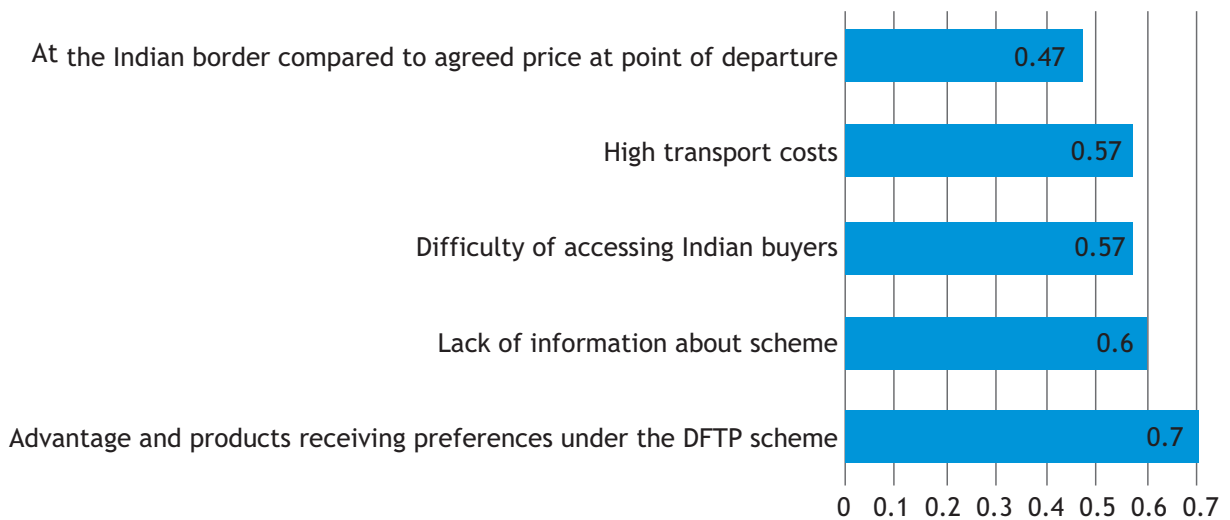
than exports to the EU or the US, or even China. This is probably another reason why coffee is not exported to India despite the presence of a market there. As a niche product with a unique Ethiopian brand name, coffee is exported to the EU and Switzerland where it attracts the best price.

### 5.4 Supply-side Constraints

As a landlocked LDC, Ethiopia faces formidable export barriers. Major constraints include inadequate infrastructure and high transport costs, lack of access to credit, shortage of skilled manpower, low availability and high cost of inputs, and limited access to land (Geda et al. 2010). Regarding exports to India specifically, a large proportion of exporters interviewed (70 percent, Figure 5) said a key hurdle was the mismatch between products of export interest to them and products receiving preferential treatment. Other problems included lack of information about the DFTP scheme, high transport costs, difficulty of identifying buyers and malpractices by importers.

The responsibility of addressing these constraints lies mainly with the Government of Ethiopia. At the same time, Indian authorities too can play an important role. Some respondents, for example, suggested that India could set up an export support fund to enhance the benefits of the DFTP scheme. The fund could serve as a guarantee for exports, through the EXIM Bank of India, for example. It could also ensure a constant valuation of exports at consignment and on Indian soil; raise awareness about the DFTP scheme; train relevant Ethiopian authorities in complying with rules of origin and other non-tariff measures; and offer market intelligence to Ethiopian firms contemplating exporting to India.



**Figure 7. Main constrains to exporting to India**

Source: ICTSD survey data.

### 5.5 Export/Productive Capacity

As the third biggest investor in Ethiopia in recent years, India is well placed to help it build its productive capacity and increase its exports to India as well as globally. The AACC notes that Ethiopia has benefited from technological spillovers from Turkish and Chinese FDI; it expects to derive similar benefits from Indian investment. In the agricultural sector, it appears that Indian investments, besides creating a few thousand jobs, have not helped much in terms of value addition, export diversification or knowledge spillovers. Ethiopia is also seeking to promote investment in manufacturing, in sectors such as textiles, leather, metal engineering, pharmaceuticals and agro-processing. These are sectors in which India has experience and technological leadership. There is significant scope for Ethiopia to harness these opportunities for investment through targeted efforts and enhanced coordination.

Ethiopia remains a poor investment destination. The country was ranked 125 among 189 countries on the World Bank's "Doing Business" index in 2013. Its scores on two of the most

critical conditions for investment—starting a business and protecting investors—were among the lowest, placing the country 166<sup>th</sup> and 157<sup>th</sup>, respectively. Moreover, the country's position has worsened in recent years: it stood 107<sup>th</sup> in 2010. This shows that other countries have improved their investment regimes while Ethiopia has failed to keep pace with reform. Ethiopia, which claims to be open for business and friendly to investors, must translate these intentions into practical actions to realize its ambition of becoming the world's next factory.

Ethiopian authorities must tackle the inefficient bureaucracy that has often been criticized by business operators, local as well as foreign. They must also work with development partners, including India and other emerging economies, to ensure that the country attracts not just large volumes of investment, but the right types as well. For well-known reasons, it has been easier for Ethiopia to plan and coordinate Chinese investments. Similar arrangements are needed for its investment engagement with India. Although Indian investment is private-sector driven, coordination at the level of a joint Indo-Ethiopia committee, for example, would ensure greater efficiency and impact.

## 6. INDIAN FOREIGN DIRECT INVESTMENT AND AID IN ETHIOPIA

Indian investment, aid and technology transfer can play a key role in building the productive and export capacities of Ethiopian firms, leading to larger exports to India and to the world. This section analyses the trends and patterns of Indian investment, and attempts to assess their impacts in job creation, value addition and diversification, in so far as available data and evidence permit. The section ends with an assessment of Indian development aid to Ethiopia, including project funding and technical assistance. The types of projects financed, and whether such funding also comes with technical assistance, can shed light on whether aid impacts productive capacity. The analysis presented here is not comprehensive; however, it serves our purpose of showing how more effective aid and better-targeted investment projects could boost Ethiopia's export capacity and help its structural transformation.

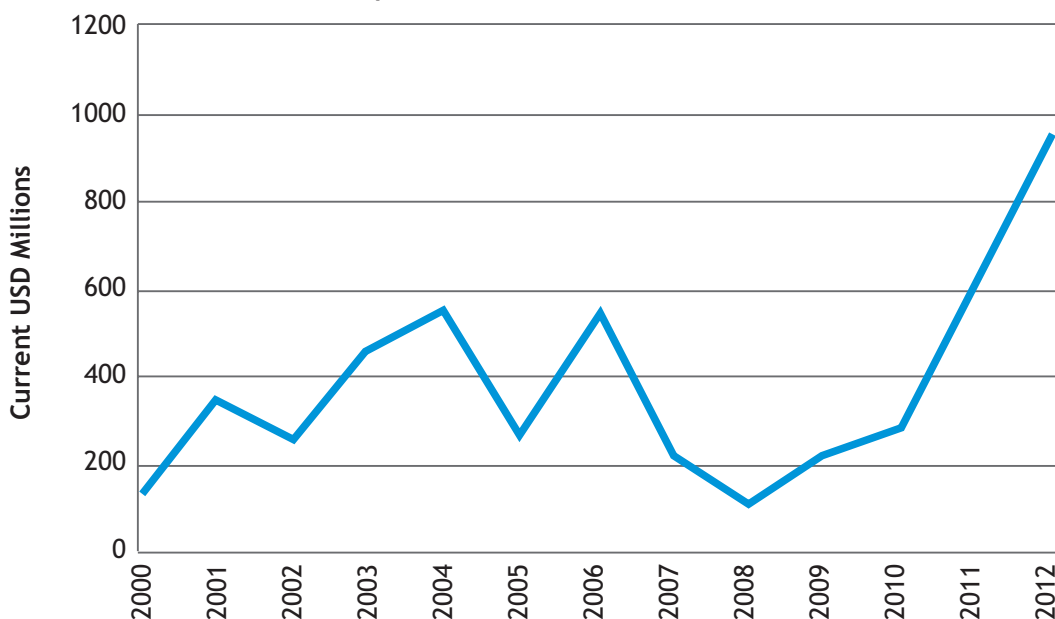
### 6.1 Foreign Direct Investment in Ethiopia

Since 1992, and the end of the Derg period, the Government of Ethiopia, in concordance with its shift away from a command economy model and towards a more market-based approach, has revised its investment code four times and has gradually lifted sectoral restrictions, although FDI remains tightly regulated. The

latest revision of investment regulations has established industrial development zones and, at the same time, raised the minimum capital requirements for foreign investment. Foreign investment in strategic sectors, such as financial services, transport services, hotels and restaurants, and insurance, are either prohibited or highly restricted. Other sectors such as telecommunications, power transmission and distribution, and postal services (except courier services) are state-controlled.<sup>34</sup>

Despite being one of the fastest growing non-oil economies in Africa, Ethiopia has faced extreme swings in FDI inflows over the last decade (Figure 8). In 2008, FDI inflows declined to USD 109 million, their lowest level in more than a decade. The combined effects of the global financial crisis and surging inflation, in part due to international food price volatility and lax monetary policy, were largely responsible for the dramatic decline in FDI flows in 2008. Between 2009 and 2011, FDI flows increased steadily before reaching their highest level, USD 970 million, in 2012. FDI has recently entered key sectors such as horticulture, floriculture, food products, textiles, leather, and natural resource extraction. The major sources of FDI are China, Germany, Italy, Turkey, the US, the UK, Yemen, Saudi Arabia, Canada, and India.<sup>35</sup>

Figure 8. FDI Net Inflows to Ethiopia



Source: UNCTAD FDI Statistics (2014).

## 6.2 Indian Foreign Direct Investment in Ethiopia

In 2012, *The Economist* noted that “investing in Ethiopia is not for the fainthearted.”<sup>36</sup> But Ethiopia’s economic problems, including high inflation, have not discouraged Indian investors, and India is currently one of the most significant foreign investors. Between 1992 and 2011, roughly 400 Indian firms invested over USD 4.7 billion.<sup>37</sup> Indian firms are active in sectors such as agriculture, floriculture, cotton and textiles, plastics, and health care. In Addis Ababa, Indian firms are engaged in manufacturing as well as in a variety of services, including engineering, consultancy, ICT, water management and education services.<sup>38</sup>

### 6.2.1 Agricultural investment: exciting possibilities but disappointing results

Since 1998, India has invested more than USD 1.5 billion in the primary sector, of which approximately 97 percent has been directed towards the growing of crops: fruit, vegetables, flowers, and beverage crops. The next largest Indian investment, a little more than 1 per cent, was in animal farming. Mining and quarrying, the third largest destination for FDI, attracted USD 7.3 million.<sup>39</sup>

Large-scale investments in crop production are not surprising given the recent inclination of the government to lease agricultural land at cut-rate prices. Large swathes of land—3.3 million hectares as per original plans—were leased for as little as USD 1 per year in 2008 in an attempt to improve Ethiopia’s food security.<sup>40</sup> However, this policy of cheap land has not been as successful as was hoped in improving agricultural yields. Karuturi Global, a Bangalore-based firm and one of the poster children of the scheme, was one of the first companies to take advantage of the programme and leased 300,000 hectares in 2008. In 2010, government officials reduced Karuturi’s land allocation to 100,000 hectares because the firm had failed to cultivate the land extensively. Currently, approximately 5 percent of the land has been cultivated by Karuturi.<sup>41</sup> The subpar

performance is not an isolated case. Shapoorji Pallonji, a Mumbai-based firm, leased 50,000 hectares for biofuel production but is currently only cultivating 2,500 hectares, while Ruchi Agri PLC leased 25,000 hectares but is farming only on 1,000 hectares.<sup>42</sup>

While levels of cultivation are below expectations of investors and the government, Indian firms have brought with them an export-oriented approach as shown by Karuturi’s plans to export horticultural products. India is not a major market for Ethiopian fresh cut flowers, as total export of fresh cut flowers to India was negligible in 2012. The major importer is the EU, which imported over 90 percent of Ethiopian flowers in 2012, with 88 percent of the fresh flowers exported to the Netherlands. This suggests that Indian investors have taken note of some of Ethiopia’s comparative advantages and want to utilize the country as an export platform to tap into international markets.

In addition, Indian investment, according to data provided by the Ethiopian Investment Agency, has created nearly 19,000 permanent jobs and roughly 207,000 temporary jobs. Considering that Ethiopia has a poverty rate of 30 percent and an unemployment rate of about 25 per cent,<sup>43</sup> employment improvements resulting from Indian FDI are welcome and socially and economically important.

### 6.2.2 Manufacturing investment: employment, exports, and opportunities

Between 1998 and the first quarter of 2014, the secondary sector attracted the lion’s share, roughly 54 per cent, of total Indian investment in Ethiopia.<sup>44</sup> In contrast to investments in the primary sector, FDI flows to the secondary sector were more diversified with significant investments in a variety of industries including leather tanning, textiles, chemicals, furniture, food and beverages, paper products and metal products. In addition, employment creation was more evenly distributed between permanent employees (26,613) and temporary employees (24,140) than employment related to Indian investments in the primary sector.



The textile industry attracted the largest share, 46.6 percent of total manufacturing-related investment, from Indian investors. With rising labour costs in Asia, millions of hectares available for cotton production, a climate conducive for the growing of the industry's most important input, and a large (nearly 92 million) and young population, Ethiopia is positioning itself as a new player in the global textiles market. Hennes and Mauritz, better known as H&M and the second largest fashion retailer in the world, is increasingly sourcing its clothing from Ethiopia in an attempt to diversify its suppliers after the collapse of the Rana Plaza factory in Bangladesh which killed more than 1,100 people and brought international condemnation. Tesco, a large British retailer, has predicted that by 2016 it will import roughly USD 11 million worth of textiles from Ethiopia. Given these dynamics and the export potential of the textile industry, it is unsurprising that Indian firms have invested as heavily as they have in textiles.<sup>45</sup>

In addition to investing in the cultivation of cotton, Indian firms have introduced value-addition in the textile and garment industry by investing in cotton processing and manufacturing. In 2011, Sara Cotton Fibres Private Ltd. established a cotton ginning facility, and plans to export its products to India.<sup>46</sup> A second Indian firm, Sutlej Textiles, is in the process of establishing the largest cotton yarn plant in Ethiopia. Once it becomes operational, the plant is expected to produce roughly 280 metric tonnes of yarn a day, generate close to USD 400 million from exports, provide direct employment to 3,000 people and indirect employment to an additional 10,000.<sup>47</sup> Long-term investments of this scope and scale indicate that Indian firms are not only willing to invest in raw material extraction, but also in products that generate additional value for export.

Similarly, Indian FDI has fostered value-addition in Ethiopia's hides and leather industry. After the ban on new FDI in tanneries was lifted in 2004, the Ethiopian Government implemented export bans and taxes to encourage processing

of raw hides within the country. Alongside China, India has become a major investor in processing hides by establishing tanneries and upgrading existing machinery and has invested nearly USD 50 million in the industry. Investments of this nature are significant as four leather and hide products are among Ethiopia's top 30 exports in the post-DFTP period and the leather and tanning industry is an important source of foreign exchange earnings and employment.<sup>48</sup>

Indian firms have also invested heavily in food and beverage processing and manufacture. Since 1998 they have invested more than USD 124 million in the industry and created around 2,500 permanent jobs and more than 3,000 temporary jobs.<sup>49</sup> In addition to providing employment opportunities and much needed foreign investment, Indian firms have also been engaged in technology transfer. For example, in 2014, the Allana Group, the largest food processor in Addis Ababa, revealed plans to establish a meat processing factory. Having secured 72 hectares of land, the investment plan for the Allana Group includes the import of slaughtering machineries, temperature controlling systems, and refrigerators.<sup>50</sup>

Indian investors have been attracted to Ethiopia's growing non-metallic mineral industries (potash, cement, clay, soda ash, salt, gypsum) and these have attracted nearly USD 370 million or 14 percent of total manufacturing investment, and created over 5,500 jobs (temporary and permanent). In order to facilitate exports of these products (presumably to feed India's growing demand for raw materials) and encourage further Indian and foreign investment in the sector, India's Exim Bank will provide Ethiopia USD 300 million for the construction of a railway line to Djibouti.<sup>51</sup>

The rail line will run to a dedicated potash terminal. Potash is one the world's most strategic fertilizers as it is only found in a limited number of countries and cannot be synthetically replicated. India is the fourth largest consumer of potash, and Indian farmers have tended to under-fertilize their fields because of its high cost. This has reduced agricultural yields and increased dependence on imported

crops. The move to tap into Ethiopia's potash reserves (projected to be the third largest in the world), and reduce the price of potash, could allow Indian farmers to increase their potash utilization and crop yields. Ethiopia is in a unique position to take advantage of the dynamics of the global potash market given its low production costs and its proximity to India and China (the largest consumer of potash). This has not escaped the notice of Allana Potash, a Canadian firm (not to be confused with the Indian-based Allana Group), which is in the process of developing a USD 718 million potash mine in Ethiopia, with plans to export potash to the Indian and Chinese markets.<sup>52</sup> It appears that Indian domestic demand has spurred investment from other countries looking to use Ethiopia as a platform for export to the Indian market.

### 6.2.3 Services: increasing investment and growth

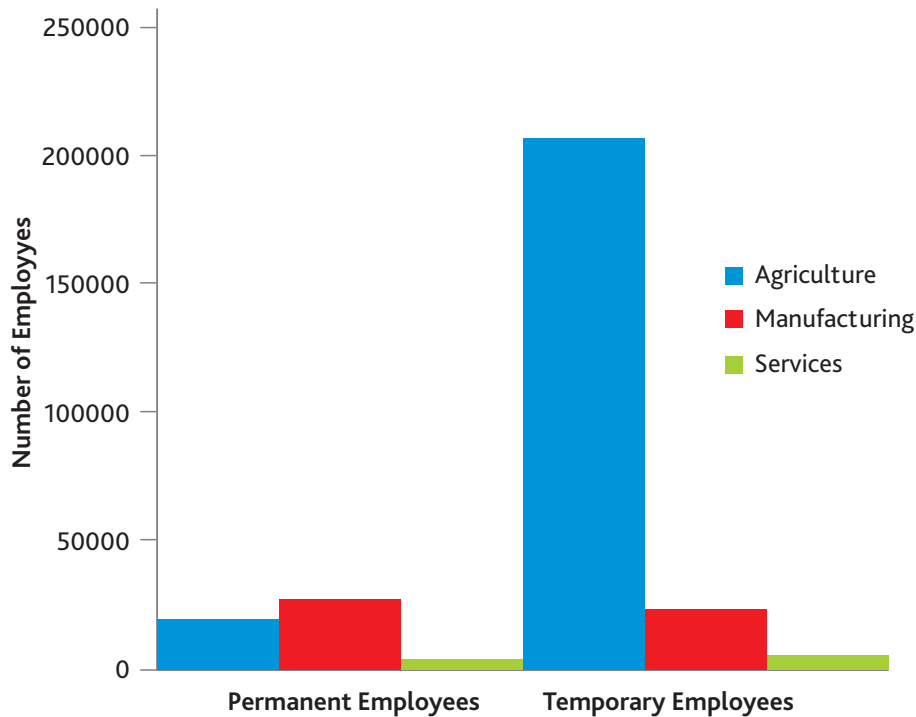
Ethiopia's services sector has shown remarkable growth over the last decade and has surpassed agriculture in its contribution to GDP. In 2011-12, services accounted for roughly 45 percent of GDP, while the agricultural sector accounted for 43.7 per cent.<sup>53</sup> Indian firms have taken advantage of this situation and invested in a variety of industries, including computer- and IT-related activities (24 percent of total services investment), machinery rental (21 per cent), hotels and restaurants (15 per cent), health and social work (13 per cent), education (9 per cent), construction (9 per cent), and real estate (9 per cent). Cumulative Indian investment in the services sector is valued at approximately USD 720 million between 1998 and 2014.

In contrast to jobs created by Indian investment in the agricultural and manufacturing sectors, employment improvements in the services sector have been limited. Despite investing nearly a

quarter of a billion dollars, Indian investment has only created roughly 3,800 permanent jobs and 5,600 temporary jobs. The computer and IT industry attracted USD 178 million between 1998 and 2014 and created 590 permanent jobs and 1,019 temporary jobs. In contrast, the rubber and plastics industry, despite receiving approximately USD 50 million less than the computer and IT industry, generated 7,310 permanent jobs and 3,124 temporary jobs.<sup>54</sup>

The computer and telecoms industry has attracted the largest share of Indian investment in the services sector. Ethiopia's telecommunications industry is controlled by the state-owned Ethiopian Telecommunications Corporation (ETC). The ETC is currently attempting to overhaul the country's telecoms infrastructure, which is poor even by LDC standards. Internet connectivity speeds are the slowest in the world; the average speed in Ethiopia is 5 kb per second, which is roughly the speed that the rest of the world used in the 1990s, and internet penetration rates are low.<sup>55</sup> The ETC has predominantly used Chinese firms, such as Huawei and ZTE, to implement its projects. However, Indian firms have also entered the mix as demonstrated by their cumulative investment of USD 178 million since 1998. Telecommunications Consultants India Ltd. (TCIL), wholly owned by the Government of India and under the control of the Ministry of Communications, has made inroads into the industry. TCIL has received contracts from the Ethiopian Telecommunications Agency for the supply of antennas, solar power systems, digital satellite receivers, and modems.<sup>56</sup>

While investments of this nature, and other service-related investments such as machinery rentals and health and social work, do not directly improve Ethiopia's export capacity, they do have positive social impacts, in addition to potentially improving productive capacity.

**Figure 9. Indian Investment and Employment (1998-2014): Agriculture, Manufacturing and Services**

Source: Ethiopian Investment Agency.

### 6.3 Indian Development Aid to Ethiopia

Between 2005 and 2012, Ethiopia's top donors included China, India, the UK, France, the US, Italy, Japan, Germany, and Canada. While the UK accounted for the largest share

of disbursements, India and China were major sources of developmental aid (Table 4). Since 2006, financial aid from India has increased substantially with India's Exim Bank extending approximately USD 1.2 billion in financial aid.

**Table 6. Largest Sources of Developmental Aid (average for 2005-12)**

	Country								
	China	Canada	UK	France	Germany	Italy	US	Japan	India
% of commitments	41.8	0.2	16.03	7.1	1.6	8.4	2.3	1.8	20.8
% of disbursements	14.8	5.5	37.6	0.7	5.5	5.5	8.2	0.4	21.9

Source: Ethiopian Ministry of Finance and Economic Development.<sup>57</sup>

In 2006, the Exim Bank extended a line of credit of USD 65 million for power transmission in the Hageremariam Mega Zone. In 2007, India provided a loan of USD 640 million, to date the single largest loan extended to a single country, for the development of the Ethiopian sugar industry. In 2011, during the India-Africa Forum, India announced its commitment of USD 300 million to the previously mentioned Addis Ababa-Djibouti railway line. A further USD 500 million was extended for the development of

the sugar industry in 2012. Disaggregating by sector, about 78.1 percent of total Indian developmental finance was extended to the sugar industry, 3.89 percent to energy generation and supply, and 17.9 percent to transport and storage.<sup>58</sup>

Indian developmental aid has complemented the assistance provided by traditional donors. While traditional donors have provided aid for budget support, education, health care, and

poverty reduction, Chinese and Indian aid has been diverted to various sectors of the economy. Chinese assistance has been directed towards energy generation and supply, transportation, and industry while Indian aid has targeted the sugar industry, transport, and energy generation and supply. Both China and India have provided monetary and non-monetary aid, including interest-free loans, concessional loans, grants, and technical assistance.

India has also provided various forms of non-monetary assistance, including training for the leather industry, consultancy for government institutions, tele-medicine and tele-education, scholarships to Ethiopian students to study in India and technical training through the India Technical and Economic Cooperation division of the Indian Ministry of Foreign Affairs.

In 2011, two Indian government institutions, the Central Leather Research Institute and the Footwear Design and Development Institute, worked with Ethiopian leather firms to improve technical knowledge. A total of 11 Ethiopian companies hosted Indian experts and received technological assistance for a year. Although there were complaints that the period of assistance was too short for the transfer of

technical knowledge, there were nonetheless reports of positive experiences and transfer of management techniques from Indian experts.<sup>59</sup>

At the request of the Ethiopian government, India offered experts in protocol and diplomatic training. In 2010, the Ethiopian Revenue and Customs Authority received support to implement WTO customs evaluation.<sup>60</sup>

In July 2007, the Government of India initiated a tele-medicine and tele-education project worth USD 2.13 million. The tele-medicine project linked Ethiopian hospitals with the Care Group of Hospitals based in Hyderabad. The tele-education centre was established at Addis Ababa University.<sup>61</sup>

Implemented in 2007, the Indian Ministry of External Affairs offered training for Ethiopians in courses such as entrepreneurship, IT, education, management, and journalism. All expenses were covered by the Indian Government. As of 2011, over 680 Ethiopians had benefited from this programme.<sup>62</sup> In addition to this, India has offered a grant of 350 scholarships (valued at USD 2.13 million) annually for students from Ethiopia to study in India.<sup>63</sup>

## 7. CONCLUSIONS

This paper assesses Ethiopia-India trade relations in the context of the Indian duty-free scheme. The scheme was launched in August 2008, but only became fully operational in October 2012 when the tariff phase-down was completed. The period at hand is arguably too short to allow a meaningful analysis of the scheme's impact. However, an early assessment can detect critical problems that need to be addressed urgently if the scheme's effectiveness is to be maximized. With this in mind, the paper focuses more on the conditions that could boost the scheme's impact on beneficiary countries rather than on the scheme's impact as such.

In this section, we summarize the paper's main findings and offer some thoughts on the way forward.

### 7.1 Summary of Key Findings

With economic growth averaging 10.6 percent between 2004-05 and 2011-12—well above the Africa average of 4.9 percent—Ethiopia is one of Africa's rising stars. Growth in recent years has been broad-based, but economic concentration persists. The share of industry in GDP was not only shockingly low at 11.5 percent in 2012, it declined since 2004. Ethiopia's impressive growth has helped reduce poverty, but it remains rampant, with about one-third of the population living on less than USD 1.25 per day in 2012. Ethiopia is also at the bottom of the human development league table and faces a number of socio-economic challenges.

Ethiopia's exports have increased remarkably over the past decade; seven-fold between 2001 and 2012. Yet, export diversification is elusive. Fruit and vegetables make up 75 percent of Ethiopia's world exports. Coffee, sesame seeds, sweet corn, gold and fresh flowers, in that order, were Ethiopia's top five export products in 2012. The danger of such concentration is that it exposes Ethiopia to commodity price swings (especially for coffee and gold) as well as to global economic crises.

Ethiopia-India trade relations have historical roots. The partnership between the two countries has been cemented through agreements in various fields, including education, science and technology, infrastructure, arts and culture, and investment. Economic relations have always been at the core of Ethiopia-India cooperation, and have assumed added significance in recent years.

Ethiopia is a founding beneficiary of the DFTP scheme, becoming eligible in August 2008. Ethiopia's exports to India increased from USD 17.4 million to USD 44.3 million between 2000 and 2012. Exports of Ethiopia's top 30 products increased three-fold between the pre-DFTP and post-DFTP periods. But it is difficult to say whether this can be attributed to the scheme, without controlling for exogenous factors. Also, the trade data is flawed since all of Ethiopia's exports to India are automatically assumed to be taking place under the duty-free scheme. Finally, the analysis does not reflect recent changes to the scheme - although these may not matter in a significant way.

Subject to the above caveats, our analysis shows that Ethiopia's exports of preference products (that is, MOP plus duty-free products) increased by 199 percent post-DFTP. Yet, excluded-product exports increased even faster (235 percent). Conversely, India's share of Ethiopian exports edged up, marginally from 1.4 percent to 1.8 percent, after the scheme came into effect. Taken together, there is no conclusive evidence that the scheme has had a significant impact on Ethiopia's exports to India.

It appears that the scheme's impact has been limited by its design. Vegetable products (except fresh cut flowers), which represent three-quarters of Ethiopia's global exports, were excluded under the scheme until it was revised in April 2014. Coffee is Ethiopia's main export; but hardly any coffee is exported to India. Significantly, coffee remains an excluded product in the revised DFTP scheme. Trade



complementarity between the two countries is very low. Ethiopia's top 30 global export products make up a mere 1.02 percent of India's global imports. The export complementarity index stands at a low 37.25.

The findings are confirmed by our primary data analysis (based on a survey of Ethiopian exporters and interviews with local stakeholders). First, there is an abject lack of awareness about the DFTP scheme among Ethiopian exporters, including those exporting to India. Second, increased awareness would help only if the scheme were more relevant to the firms. By excluding the very products that the exporters deal in, the scheme is doing a great injustice to them. Third, supply-side constraints are particularly acute in Ethiopia. For example, high transport costs are as much a result of Ethiopia's geographical situation as they are due to the country's deficient infrastructure. They raise trade costs and reduce the country's export competitiveness. Fourth, it appears that Indian FDI can play a crucial role in helping build Ethiopia's productive capacity. For example, Indian investments in the cotton sector have led to the emergence of a vertically integrated industry, featuring cotton farming, processing and spinning. Similar evidence is emerging in the leather industry. Ethiopia could give a boost to such productive investments by making it easier to invest in the country.

## 7.2 Policy Recommendations

In order for the DFTP scheme to be more effective, the two countries should take a number of concrete steps and make several policy changes.

First, the scheme's design is a key determinant of its impact. In its current form, the scheme is not very attractive to Ethiopian exporters of coffee, sesame seeds and sweet corn.<sup>64</sup> These three products make up over half of Ethiopia's global exports; yet, they are excluded under the scheme.

Second, there is need on both sides to promote the scheme more actively. A majority of exporters are ignorant about the scheme,

and those who are aware may not know if their products qualify for duty concessions. It appears that Ethiopia's chambers of commerce have done a fairly good job in disseminating information about the DFTP scheme, but more needs to be done. The Ethiopian Government could empower the Export Promotion Agency to share information about the scheme among the exporter community. Better communication strategies making use of web-based technologies can achieve significant results in a short time.

Third, even a 100 percent duty-free scheme may not give a significant boost to Ethiopia's exports because of the lack of trade complementarity between the two countries. The surest way to build export potential is by producing a wider range of products. The need for export diversification cannot be emphasized enough in a country where a single product accounts for almost one-third of global exports. However, diversifying exports takes time and requires a strategy. Ethiopia's export strategy seems to be devolved across several policies and plans, which dilutes its focus and hampers effective implementation. It is time for the country to consolidate its export development strategy and mainstream it in its national development strategy.

Implementing a dedicated export strategy requires targeted policy as well as human and financial capacity. The EEPA seems to be facing the same kind of constraints as its counterparts in Tanzania and Uganda, where the authors undertook field missions. There is a need for the government to provide greater support, including political support, to the EEPA. Development partners and institutions can help by directing increased Aid-for-Trade resources to the EEPA.

A core component of an effective export strategy is the ability to address supply-side constraints, which are particularly binding in poor, landlocked countries like Ethiopia. Increased investments in physical infrastructure, including railways and transport corridors, will bring significant economic returns. India's aid for the construction of a railway linking Addis Ababa to the port of Djibouti is a significant

stride to cut trading costs in Ethiopia. Such investments should continue to enable Ethiopia to reduce its large infrastructure deficit.

Ethiopia must build its productive/export capacity to produce a larger range of products, including higher value-added products. There is evidence that India's investments in some sectors (for example, cotton and leather) have increased capacity in important ways; yet, in other sectors, such as agriculture, the results have been lacklustre. Greater amounts of Indian FDI, if coordinated and channelled to priority sectors, including, ideally, sectors that offer scope for significant technological spillovers, can help improve Ethiopia's production capabilities over time. The Government of

Ethiopia can accelerate this process by taking measures to enhance the country's investment attractiveness.

### **7.3 Final Word**

Several of the above policy recommendations may sound rather general. Yet, they follow directly from the analysis presented in this paper. They serve to remind us that duty-free schemes for LDCs may not achieve much if steps to build their export capacity are not taken in the first place. The onus for this lies with the LDCs themselves; the development community can only leverage the will to effect change by providing critically needed aid and investment.

## ENDNOTES

- 1 WTO Document; WT/MIN(05)/DEC. Adopted 18 December 2005.
- 2 Population statistics obtained from UNICEF; [http://www.unicef.org/infobycountry/ethiopia\\_statistics.html](http://www.unicef.org/infobycountry/ethiopia_statistics.html).
- 3 United Nations Statistics Division; <http://data.un.org/CountryProfile.aspx?crName=ethiopia#>. Social and African Development Bank. Federal Democratic Republic of Ethiopia Country Strategy Paper. April 2011.
- 4 The Derg is the shortened name for the Marxist-inspired Coordinating Committee of the Armed Forces, Police, and Territorial Army, which deposed the emperor Haile Selassie in a coup in 1974. Colonel Mengistu Haile Meriam assumed leadership of the Derg in 1978 and remained in power until 1991 when he was deposed and forced to leave Ethiopia. Although the Derg was officially disbanded in 1987 by Mengistu, for the sake of convenience, the period from 1974-91 is collectively referred to as the Derg regime.
- 5 World Bank Development Indicators; <http://www.worldbank.org/en/country/ethiopia/overview>.
- 6 National Bank of Ethiopia Annual Report 2011-2012.
- 7 The annual percentage growth rate of GDP is based on constant local currency.
- 8 United Nations Development Programme. Human Development Reports: Ethiopia; <http://hdr.undp.org/en/countries/profiles/ETH>; and World Bank Development Indicators; <http://www.worldbank.org/en/country/ethiopia/overview>.
- 9 UNDP Human Development Report 2013. The Rise of the South: Human Progress in a Diverse World.
- 10 World Bank Development Indicators; <http://www.worldbank.org/en/country/ethiopia/overview>.
- 11 African Development Bank. Federal Democratic Republic of Ethiopia Country Strategy Paper (April 2011).
- 12 Ethiopia has pledged to do so by the end of December 2014, but this does not look likely. *The East African*; <http://www.theeastafrican.co.ke/news/Uganda-and-Ethiopia-to-join-Comesa-free-trade-area/-/2558/2230370/-/y2wrj0/-/index.html>.
- 13 The famine in Ethiopia in 2002-03 left roughly a fifth of the population without food and resulted in a dramatic increase in food prices (in January 2003 food prices increased by 85 per cent) and a drop in production.
- 14 Vegetable exports include coffee, sweet corn, sesame seeds, flowers and cuttings, various varieties of beans and peas, ginger, wheat, and natural gums. Animal exports include bovine animals, sheep, and goats.
- 15 World Gold Council; <http://www.gold.org/investment/interactive-gold-price-chart>.
- 16 HS 1996 was utilized for 2001 because of the unavailability of data in HS 2002. HS 2002 was employed for 2006 and 2012.
- 17 Current value in USD.



- 18 Harmonized System (HS) Codes with the 1996 classification were used for the period 2001-03 because of the unavailability of data in HS 2002 for the selected period.
- 19 Ethiopian Coffee Exporters Association (2014); <http://www.ecea.org.et/documents/10640/0/COFFEE+EXPORT+BUSINESS+IN+ETHIOPIA.pdf>
- 20 Ethiopian Exporters Institute (2014); <http://www.ethiopianexporters.com/products.html>.
- 21 International Coffee Organization (2014): International Coffee Council; <http://www.ico.org/documents/cy2013-14/icc-112-6-r1e-wcc-ethiopia.pdf>.
- 22 [http://www.lightyearsip.net/assets/images/news/Branding\\_Ethiopian\\_Coffee.pdf](http://www.lightyearsip.net/assets/images/news/Branding_Ethiopian_Coffee.pdf).
- 23 ITC Trade Map.
- 24 World Bank GEM Commodities Databank 2013.
- 25 African Development Bank Group. Djibouti Country Strategy Paper 2011-15; <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Djibouti%20-%20CSP%202011-15.pdf>.
- 26 Sheikh Mohammed Al Amoudi (2014) website; <http://www.sheikhmohammedalamoudi.info/home/news/10000-tons-fruit-vegetables-ethiopia-saudi-arabia-food-security>.
- 27 The Guardian (July 2013). "Ethiopia's Sesame Seed Trade with China - A Partnership of Equals;" <http://www.theguardian.com/global-development/poverty-matters/2013/jul/10/ethiopia-sesame-seed-trade-china>.
- 28 Indian Ministry of External Affairs (2013); [http://mea.gov.in/Portal/ForeignRelation/Indian-Ethiopia\\_Relations.pdf](http://mea.gov.in/Portal/ForeignRelation/Indian-Ethiopia_Relations.pdf).
- 29 Data obtained from UN Comtrade (2014) using HS2002.
- 30 HS2002 data was used for the calculations. Blanks in the Comtrade dataset are treated as missing data as opposed to no trade.
- 31 As specified in the previous section, this analysis is based on Ethiopia's top 30 exports to India.
- 32 HS2002 data was used for the calculations. Blanks in the Comtrade dataset are treated as missing data as opposed to no trade.
- 33 Figures are drawn from the WTO Tariff Analysis Online database.
- 34 U.S. Department of State. 2013. 2013 Investment Climate Statement - Ethiopia; <http://www.state.gov/e/eb/rls/othr/ics/2013/204639.htm>; and Embassy of Ethiopia. 2012. Ethiopia Investment Guide 2012; [http://www.ethiopianembassy.org/PDF/Ethiopia\\_Investment\\_Guide\\_2012.pdf](http://www.ethiopianembassy.org/PDF/Ethiopia_Investment_Guide_2012.pdf).
- 35 U.S. Department of State. 2013. 2013 Investment Climate Statement - Ethiopia; <http://www.state.gov/e/eb/rls/othr/ics/2013/204639.htm>; and Embassy of Ethiopia. 2012. Ethiopia Investment Guide 2012; [http://www.ethiopianembassy.org/PDF/Ethiopia\\_Investment\\_Guide\\_2012.pdf](http://www.ethiopianembassy.org/PDF/Ethiopia_Investment_Guide_2012.pdf).
- 36 The Economist. 12 March 2012. "Investing in Ethiopia: Frontier Mentality."

- 37 Davison, W. 2011. “India Investment in Ethiopia May Double to \$10 Billion by 2015, Meles Says.” Bloomberg. Published 25 May 2011; <http://www.bloomberg.com/news/2011-05-25/india-investment-in-ethiopia-may-double-to-10-billion-by-2015-meles-says.html>.
- 38 The Embassy of India. 2014. India-Ethiopia Commercial Bilateral Relations; <http://www.indembassyeth.in/eoi.php?id=Commercial>.
- 39 Figures are based on investment data provided by the Ethiopian Investment Agency quoted in local currency (Barr). Average exchange rates, sourced from the IMF, were applied. Average rates were used in order to take into account recent volatility in the Barr-USD exchange rate.
- 40 Bloomberg. 26 November 2013. “Ethiopia’s Farm Investment Plans Falter on Flood Plain;” <http://www.bloomberg.com/news/2013-11-24/ethiopian-drive-to-lure-farm-investment-founders-on-flood-plain.html>.
- 41 The Hindu. 1 June 2013. “Karuturi Debacle Prompts Ethiopia to Review Land Policy;” <http://www.thehindu.com/news/international/world/karuturi-debacle-prompts-ethiopia-to-review-land-policy/article4772306.ece>.
- 42 Bloomberg. 26 November 2013. “Ethiopia’s Farm Investment Plans Falter on Flood Plain;” <http://www.bloomberg.com/news/2013-11-24/ethiopian-drive-to-lure-farm-investment-founders-on-flood-plain.html>.
- 43 IMF (2013). Country Report No.13/308. “The Federal Democratic Republic of Ethiopia;” <http://www.imf.org/external/pubs/ft/scr/2013/cr13308.pdf>.
- 44 Ethiopian Investment Agency (2014).
- 45 IPS News. March 2014. “Ethiopia’s Textile Manufacturers Benefit from Global Interest;” <http://www.ipsnews.net/2014/03/ethiopias-textile-manufacturers-benefit-global-winds-change/>.
- 46 <http://www.indiaafricaconnect.in/index.php?param=news/3181/agriculture-energy/104>.
- 47 Fekade, B. (2014). “Indian firm to plant Africa’s largest cotton mill here.” The Reporter. Published 3 May 2014; <http://www.thereporterethiopia.com/index.php/news-headlines/item/1959-indian-firm-to-plant-africas-largest-cotton-mill-here>.
- 48 Ethiopia’s top leather and hides products in the post-DFTP period include dry sheep or lamb leather, leather (further prepared after tanning), tanned or crust hides and skins of other animals, and leather further prepared after tanning.
- 49 Ethiopian Investment Agency (2014).
- 50 AllAfrica. 2014. “Ethiopia: Largest Indian Meat Processor Starts to Import Machineries.” Published 29 March 2014; <http://allafrica.com/stories/201403310723.html>.
- 51 Bloomberg News. June 2013; <http://www.bloomberg.com/news/2013-06-19/india-exim-bank-lends-ethiopia-300-million-for-rail-to-djibouti.html>.
- 52 The Diplomat. August 2013. “The Great Potash Power Play;” <http://thediplomat.com/2013/08/the-great-potash-power-play/1/>.
- 53 National Bank of Ethiopia (2013). “NBE Annual Report 2011-2012;” [http://www.nbe.gov.et/pdf/annualbulletin/Annual%20Report%202011-2012/Annual%20report%202011\\_12.pdf](http://www.nbe.gov.et/pdf/annualbulletin/Annual%20Report%202011-2012/Annual%20report%202011_12.pdf).
- 54 Ethiopian Investment Agency (2014).

- 55 AllAfrica. June 2014. "Ethiopia: Miscommunication - Telecoms Expansion Targets Quantity not Quality;" <http://allafrica.com/stories/201312170204.html>.
- 56 Ethiopian Economics Association and the Ethiopian Economic Policy Research Institute. December 2013. "A Survey of the Economic and Trade Relationships between China, India, and Ethiopia."
- 57 Data on bilateral aid is from the Ministry of Finance and Economic Development of Ethiopia. The figures were obtained from Jalata, G.G. (2014). "Development Assistance from the South: Comparative Analysis of Chinese and Indian to Ethiopia." *Chinese Studies*, Vol. 3 (1), pp. 24-39.
- 58 Data on bilateral aid is from the Ministry of Finance and Economic Development of Ethiopia. The figures were obtained from Jalata, G.G. (2014). "Development Assistance from the South: Comparative Analysis of Chinese and Indian to Ethiopia." *Chinese Studies*, Vol. 3 (1), pp. 24-39.
- 59 PEDL. 2012 Research Note. "The Role of Foreign Investment in Ethiopia's Leather Value Chain." ERG Project 106. Flying Geese in Ethiopia's Leather Cluster? Understanding Asian/Chinese Impact; [http://pedl.cepr.org/sites/default/files/Research%20Note\\_Brautigam\\_McMillan\\_Tang.pdf](http://pedl.cepr.org/sites/default/files/Research%20Note_Brautigam_McMillan_Tang.pdf).
- 60 Jalata, G. G. (2014).
- 61 Malone, B. (2008). "Telemedicine links Africans to Indian expertise." Reuters. Published 3 April 2008; <http://mobile.reuters.com/article/technologyNews/idUSL015117720080403>. Jalata, G.G. (2014).
- 62 Embassy of India (2014). Indian Technical and Economic Cooperation (ITEC) Programme; <http://www.indembassyeth.in/eoi.php?id=ITEC%20Scholarships>.
- 63 Jalata, G.G. (2014).
- 64 Sweet corn which was excluded under the previous scheme is now a duty-free product.

## REFERENCES

- Assefa, Alemseged; Zewdu Yeabsira. 2014. “Coffee Export Business in Ethiopia: Business Start-Up and Operational Manual.” Ethiopian Coffee Exporters Association, Addis Ababa.
- African Development Bank. 2011. “Federal Democratic Republic of Ethiopia Country Strategy Paper,” <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Ethiopia-2011-2015%20CSP%20ENG1.pdf>.
- Africa Travel Association. 2014. “Coffee Growing in Ethiopia on the Horn of Africa,” <http://www.africa-ata.org/coffee.htm>.
- Embassy of India. 2014. “India-Ethiopia Commercial Bilateral Relations,” <http://www.indembassyeth.in/eoi.php?id=Commercial>.
- Ethiopian Economics Association and the Ethiopian Economic Policy Research Institute. 2009. “A Survey of the Economic and Trade Relationships between China, India and Ethiopia,” <http://www.fes-ethiopia.org/media/pdf/China%20and%20India%20and%20Ethiopia%20final%20report.pdf>.
- Geda, Alemayehu; Zerfu, Daniel; Shimeless, Abebe; and Yirga, Getachew. 2010. “Export Supply Response Capacity Constraints in Ethiopia.” (Collaborative Research on Export Supply Response Capacity Constraints in Africa. Report Submitted to the African Economic Research Consortium, AERC, Nairobi, Kenya).
- ICTSD. 2014. “Deepening India’s Engagement With the Least Developed Countries: A Critical Analysis of India’s Duty-free Tariff Preference Scheme.” International Centre for Trade and Sustainable Development, Geneva.
- India Africa Connect. 2014. “Indian firm to cultivate cotton, soya in Ethiopia,” <http://www.indiaafricaconnect.in/index.php?param=news/3181/agriculture-energy/104>.
- Jalata, G.G. 2014. “Development Assistance from the South: Comparative Analysis of Chinese and Indian to Ethiopia.” Chinese Studies, Vol. 3 Issue 1, pp. 24-39.
- Private Enterprise Development in Low-Income Countries. 2012. “The Role of Foreign Investment in Ethiopia’s Leather Value Chain.” ERG Project 106. Flying Geese in Ethiopia’s Leather Cluster? Understanding Asian/Chinese Impact, [http://pedl.cepr.org/sites/default/files/Research%20Note\\_Brautigam\\_McMillan\\_Tang.pdf](http://pedl.cepr.org/sites/default/files/Research%20Note_Brautigam_McMillan_Tang.pdf).
- United Nations Development Programme. 2014. “Human Development Reports: Ethiopia,” <http://hdr.undp.org/en/countries/profiles/ETH>.
- UNDP Human Development Report. 2013. “The Rise of the South: Human Progress in a Diverse World,” <http://www.pk.undp.org/content/dam/pakistan/docs/HDR/UNDP-PK-HDR-GLOBAL-2013.pdf>.
- World Trade Organization. 2013. “Briefing note: Decisions for least-developed countries,” [http://www.wto.org/english/thewto\\_e/minutes\\_e/mc9\\_e/brief\\_ldc\\_e.htm](http://www.wto.org/english/thewto_e/minutes_e/mc9_e/brief_ldc_e.htm).
- World Trade Organization. 2014. “Status of Accession Working Party,” [http://www.wto.org/english/thewto\\_e/acc\\_e/a1\\_ethiopia\\_e.htm](http://www.wto.org/english/thewto_e/acc_e/a1_ethiopia_e.htm).
- U.S. Department of State. 2013. “2013 Investment Climate Statement - Ethiopia,” <http://www.state.gov/e/eb/rls/othr/ics/2013/204639.htm>.

### News Articles

- AllAfrica. 2013. "Ethiopia: India's Mining Company to Invest in Ethiopian Coal Mine." Published 27 October 2013, <http://allafrica.com/stories/201310280020.html>.
- AllAfrica. 2014. "Ethiopia: Largest Indian Meat Processor Starts to Import Machineries." 29 March 2014, <http://allafrica.com/stories/201403310723.html>.
- Davison, W. 2011. "India Investment in Ethiopia May Double to \$10 Billion by 2015, Meles Says." Bloomberg, 25 May 2011, <http://www.bloomberg.com/news/2011-05-25/india-investment-in-ethiopia-may-double-to-10-billion-by-2015-meles-says.html>.
- Fekade, B. 2014. "Indian firm to plant Africa's largest cotton mill here." *The Reporter*, 3 May 2014, <http://www.thereporterethiopia.com/index.php/news-headlines/item/1959-indian-firm-to-plant-africas-largest-cotton-mill-here>.
- Khan, Z. 2014. "Asian Paints acquires Ethiopian paint maker." *Live Mint and the Wall Street Journal*, 15 April 2014, <http://www.livemint.com/Companies/5H4BB8tLD8rbdka6slfAWL/Asian-Paints-acquires-Ethiopian-paint-maker.html>.
- Malone, B. 2008. "'Telemedicine' links Africans to Indian expertise." Reuters, 3 April 2008, <http://mobile.reuters.com/article/technologyNews/idUSL015117720080403>.
- Odhiambo, A. 2014. "Uganda, Ethiopia to join Comesa free trade area." *The East African*, 4 March 2014, <http://www.theeastafrican.co.ke/news/Uganda-and-Ethiopia-to-join-Comesa-free-trade-area/-/2558/2230370/-/y2wrj0/-/index.html>.

### Official Documents

- Embassy of Ethiopia. 2012. "Ethiopia Investment Guide 2012," [http://www.ethiopianembassy.org/PDF/Ethiopia\\_Investment\\_Guide\\_2012.pdf](http://www.ethiopianembassy.org/PDF/Ethiopia_Investment_Guide_2012.pdf).
- Embassy of India. 2014. "Indian Technical and Economic Cooperation (ITEC) Programme," <http://www.indembassyeth.in/eoi.php?id=ITEC%20Scholarships>.
- National Bank of Ethiopia. 2013. "NBE Annual Report 2011-2012," [http://www.nbe.gov.et/pdf/annualbulletin/Annual%20Report%202011-2012/Annual%20report%202011\\_12.pdf](http://www.nbe.gov.et/pdf/annualbulletin/Annual%20Report%202011-2012/Annual%20report%202011_12.pdf).
- WTO Document, WT/MIN(05)/DEC. Adopted 18 December 2005, [http://www.wto.org/english/thewto\\_e/minist\\_e/min05\\_e/final\\_text\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min05_e/final_text_e.htm)

### Databases

- UN Comtrade and World Bank. 2014. World Integrated Trade Solution, <http://wits.worldbank.org/>.
- UNICEF Statistics. 2014. [http://www.unicef.org/infobycountry/ethiopia\\_statistics.html](http://www.unicef.org/infobycountry/ethiopia_statistics.html).
- World Bank Development Indicators. 2014, <http://www.worldbank.org/en/country/ethiopia/overview>.
- World Gold Council. 2014. "Interactive gold price chart," <http://www.gold.org/investment/interactive-gold-price-chart>.

**ANNEX I: CLASSIFICATION OF ETHIOPIA'S TOP 30 EXPORTS TO INDIA****Table1. Exclusion Products Among Ethiopia's Top 30 Exports to India (Pre- and Post-DFTP)**

Pre-DFTP (2004-07)		Post-DFTP (2009-12)					
Number of lines	Percentage of Total Exported Lines	Percentage Share of Top 30 Exports		Number of Line	Percentage of Total Exported Lines	Percentage Share of Top 30 Exports	
Product Code	Product Description	Average (USD million)	Share of Total Average Exports (%)	Product Code	Product Description	Average (USD million)	Share of Total Average Exports (%)
120740	Sesame Seeds	0.51	3.90%	71029	Sesame seeds	2.93	7.00
740400	Copper waste and scrap	0.27	2.10%	120799	Oil seeds and oleaginous fruits	1.32	3.10
720421	Waste and scrap of stainless steel	0.23	1.80%	130120	Gum Arabic	0.59	1.40
71029	Other	0.23	1.70%	70990	Sweet corn	0.47	1.10
720429	Other ferrous waste and scrap	0.18	1.40%	71029	Dried vegetables	0.42	1.00
760200	Aluminium waste and scrap	0.17	1.30%		<b>Total</b>	<b>5.74</b>	<b>13.70</b>
130120	Gum Arabic	0.13	1.00%				
	<b>Total</b>	<b>1.71</b>	<b>13.20%</b>				

Source: Authors' calculations based on UN Comtrade (2014).



Table2. MOP Products Among Ethiopia's Top 30 Exports to India (Pre- and Post-DFTP)

Pre-DFTP (2004-07)				Post-DFTP (2009-12)			
Product Code	Product Description	Average (USD million)	Share of Total Average Exports (%)	Product Code	Product Description	Average (USD million)	Share of Total Average Exports (%)
520300	Cotton, carded or combed	1.28	9.80%	71333	Kidney beans	5.49	13.10
71320	Chickpeas	1.11	8.60%	71320	Chickpeas	1.99	4.70
71333	Kidney beans	0.73	5.60%	71390	Dried legumes	1.64	3.90
520299	Other waste of cotton	0.56	4.30%	520300	Cotton, carded or combed	1.13	2.70
71390	Seeds of a kind used for sowing	0.53	4.10%	71339	Beans dried, shelled	1.08	2.60
71310	Peas	0.53	4.10%	91010	Ginger	1.03	2.50
91010	Ginger	0.27	2.10%	850490	Parts of electrical transformers	0.51	1.20
520100	Cotton, not carded or combed	0.21	1.60%	70810	Peas	0.31	0.70
610322	Men's or boys' ensembles of cotton	0.15	1.10%	71340	Lentils, dried, shelled	0.25	0.60
	<b>Total</b>	<b>5.37</b>	<b>41.3%</b>		<b>Total</b>	<b>13.43</b>	<b>32.0</b>

Source: Authors' calculations based on UN Comtrade (2014)

Table3. Duty-Free Products Among Ethiopia's Top 30 Exports to India (Pre- and Post=DFTP)

Pre-DFTP (2004-07)				Post-DFTP (2009-12)			
Product Code	Product Description	Average (USD million)	Share of Total Average Exports (%)	Product Code	Product Description	Average (USD million)	Share of Total Average Exports (%)
410221	Raw skins of sheep or lambs	1.73	13.3%	410530	Tanned Crust Skins	9.03	21.50
410510	Tanned or crust skins of sheep or lambs	0.63	4.9%	710310	Precious stones	3.52	8.40
410190	Other hides of cows and horses	0.47	3.6%	411200	Leather	1.17	2.80
790200	Zinc waste and scrap	0.43	3.3%	850433	Other transformers having power	1.02	2.40
410229	Other raw skins of sheep or lambs	0.41	3.1%	780110	Refined lead	0.69	1.60
780419	Other lead plates	0.29	2.2%	410221	Raw skins of sheep or lambs	0.65	1.50
410411	Bovine skin leather	0.27	2.1%	251749	Granules, chippings, powder of basalt	0.39	0.90
410419	Other cow, horse wet leather	0.27	2.1%	282990	Perchlorates	0.28	0.70
410530	Tanned or crust skins of sheep or lambs, in the dry state	0.21	1.6%	410622	Tanned/crust hides & skins of goats/kids	0.26	0.60
411200	Leather further prepared after tanning or crusting	0.14	1.1%	780191	Unwrought lead	0.25	0.60
550110	Filament tow	0.13	1.0%	760692	Other plates, sheets and strip of aluminum alloys	0.23	0.50
722490	Semi-finished products of other alloy steel	0.12	0.9%	780199	Unwrought lead other than refined	0.23	0.50
140490	Other vegetable products	0.12	0.9%	740919	Other copper plates	0.23	0.60

Pre-DFTP (2004-07)				Post-DFTP (2009-12)			
Product Code	Product Description	Average (USD million)	Share of Total Average Exports (%)	Product Code	Product Description	Average (USD million)	Share of Total Average Exports (%)
410621	Tanned or crust hides and skins of goats or kids	0.12	0.9%	740929	Lead plates, sheets, strips	0.22	0.50
	<b>Total</b>	<b>5.34</b>	<b>41.0%</b>	740911	Plates of refined copper	0.21	0.50
				410449	Other grain of bovine wet state	0.2	0.50
					<b>Total</b>	<b>18.58</b>	<b>44.1</b>

Source: Authors' calculations based on UN Comtrade (2014).

## ANNEX II: ETHIOPIAN EXPORTS TO INDIA AND THE WORLD OF TOP 30 POST-DFTP EXPORTS TO INDIA

Product Code	Product Name	Status	Pre-DFTP Average Exports to India (USD million)	Post-DFTP Average Exports to India (USD million)	Growth of Post DFTP/ Pre DFTP (%)	Pre-DFTP Average Exports to World (USD million)	Post-DFTP Average Exports to World (USD million)	Growth of Post DFTP/ Pre DFTP (%)
410530	Tanned crust skins	Duty-Free	0.2	9.0	5571.8	6.51	29.8	357.5
410530	Tanned crust skins	Duty-Free	0.2	9.0	5571.8	6.51	29.8	357.5
071333	Kidney beans	MOP at 10%	0.6	5.5	757.8	13.54	61.7	355.9
710310	Precious stones	Duty-Free	N/A	3.5	N/A	0.02	4.7	23,450.0
120740	Sesame seeds	Exclusion	0.4	2.9	651.3	132.04	355.2	169.0
071320	Chickpeas	MOP at 10%	1.0	2.0	97.0	25.74	34.8	35.1
071390	Dried legumes	MOP at 10%	0.4	1.6	310.0	0.9	9.9	1,002.2
120799	Oil seeds and oleaginous fruits	Exclusion	0.2	1.3	528.6	16.33	30.1	84.5
411200	Leather further prepared after tanning	Duty-Free	0.1	1.2	735.7	4.35	24.4	460.2
520300	Cotton, carded or combed	MOP at 50%	1.1	1.1	6.6	8.17	4.0	-51.0
071339	Dried shelled beans	MOP at 10%	0.1	1.1	1,700.0	1.47	1.5	0.7
091010	Ginger	MOP at 15%	0.3	1.0	281.5	5.87	16.8	185.5
850433	Other transformers having power	Duty-Free	N/A	1.0	N/A	N/A	0.4	N/A
780110	Refined lead	Duty-Free	N/A	0.7	N/A	0.06	1.1	1,716.7
410221	Raw skins of sheep/lambs	Duty-Free	1.4	0.7	-52.6	9.49	1.0	-89.7
130120	Gum Arabic	Exclusion	0.1	0.6	353.8	0.61	1.2	90.2
850490	Parts of electrical transformers	MOP at 50%	N/A	0.5	N/A	0.09	0.2	88.9

Product Code	Product Name	Status	Pre-DFTP Average Exports to India (USD million)	Post-DFTP Average Exports to India (USD million)	Growth of Post DFTP/ Pre DFTP (%)	Pre-DFTP Average Exports to World (USD million)	Post-DFTP Average Exports to World (USD million)	Growth of Post DFTP/ Pre DFTP (%)
070990	Sweet Corn	Exclusion	N/A	0.5	N/A	0.52	224.8	43,136.5
071029	Dried vegetables	Exclusion	0.2	0.4	162.5	0.76	0.2	-78.9
251749	Granules, chippings, powder of basalt	Duty-Free	N/A	0.4	N/A	0.01	0.2	2,000.0
70810	Pea	MOP at 10%	N/A	0.3	N/A	0.09	0.4	377.8
282990	Perchlorates	Duty-Free	N/A	0.3	N/A	N/A	0.3	N/A
410622	Tanned/crust hides & skins of goats/kids	Duty-Free	0.01	0.3	2,500.0	1.23	13.5	998.4
780191	Unwrought lead	Duty-Free	N/A	0.3	N/A	N/A	0.3	N/A
071340	Lentils, dried, shelled	MOP at 10%	N/A	0.3	N/A	2.36	7.2	205.9
760692	Other plates, sheets and strip, of aluminium alloys	Duty-Free	N/A	0.2	N/A	N/A	0.5	N/A
780199	Unwrought lead other than refined	Duty-Free	N/A	0.2	N/A	N/A	0.6	N/A
740919	Other copper plates	Duty-Free	N/A	0.2	N/A	N/A	0.5	N/A
740929	Lead plates, sheets, strips	Duty-Free	N/A	0.2	N/A	N/A	0.2	N/A
740911	Plates of refined copper	Duty-Free	N/A	0.2	N/A	N/A	0.2	N/A
410449	Other grain of bovine wet state	Duty-Free	N/A	0.2	N/A	0.19	0.7	257.9
<b>Total (Top 30 Average)</b>			<b>6.0</b>	<b>37.8</b>		<b>230.4</b>	<b>826.0</b>	

Source: Authors' calculations based on data UN Comtrade (2014).

Note: Table based on HS2002 data. The top 30 exports to India are post-DFTP.

### ANNEX III: ETHIOPIA'S TOP 30 GLOBAL EXPORTS IN THE POST-DFTP PERIOD

Product Code	Product Description	DFTP Status	Post-DFTP Average Export to World (USD million)	Share of Top 30 Global Exports
090111	Coffee, not roasted, not decaffeinated	Exclusion	701.2	32.9
120740	Sesame seeds	Exclusion	355.2	16.7
070990	Sweet corn	Exclusion	224.8	10.5
060310	Fresh cut flowers and buds	MOP at 25%	152.4	7.1
710813	Gold in other semi-manufactured forms	Duty-Free	143.6	6.7
010290	Bovine animals, live, nes	Duty-Free	87.0	4.1
071333	Kidney beans	MOP at 10%	61.7	2.9
020450	Meat of goats	Exclusion	41.6	1.9
010619	Other mammals	Exclusion	39.6	1.9
071320	Chickpeas	MOP at 10%	34.8	1.6
120799	Other oil seeds	Exclusion	30.1	1.4
410530	Dry sheep or lamb leather	Duty-Free	29.8	1.4
071350	Broad beans and horse beans	MOP at 10%	28.1	1.3
411200	Leather further prepared after tanning	Duty-Free	24.4	1.1
060210	Unrooted cuttings and slips	Duty-Free	21.4	1.0
091010	Ginger	MOP at 15%	16.8	0.8
170111	Cane sugar	MOP at 50%	14.9	0.7
261590	Niobium, tantalum or vanadium ores and concentrates	Duty-Free	14.3	0.7
410622	Tanned or crust hides and skins of other animals	Duty-Free	13.5	0.6
010410	Live sheep	Duty-Free	12.5	0.6
100590	Maize (not seed)	Exclusion	12.4	0.6
100190	Wheat	Exclusion	12.1	0.6
130190	Other natural gums	Exclusion	10.7	0.5
071390	Dried legumes	MOP at 10%	9.9	0.5
120210	Groundnut seeds	Exclusion	7.5	0.4
071340	Lentils, dried, shelled	MOP at 10%	7.2	0.3



Product Code	Product Description	DFTP Status	Post-DFTP Average Export to World (USD million)	Share of Top 30 Global Exports
411310	Leather further prepared after tanning	Duty-Free	6.7	0.3
070190	Other potatoes (fresh or chilled)	MOP at 15%	6.5	0.3
020410	Fresh or chilled lamb carcasses	Duty-Free	6.3	0.3
843143	Parts for boring or sinking machinery	Duty-Free	6.1	0.3
<b>Total Average of the Top 30 Exports to the World</b>			<b>2,133.1</b>	
<b>Total Average Exports to the World</b>			<b>2,407.9</b>	

Source: Authors' calculations based on data UN Comtrade (2014).

Note: Table based on HS2002 data.

## ANNEX IV: ETHIOPIA'S TOP 30 GLOBAL EXPORTS AND INDIA'S IMPORT DEMAND IN THE POST-DFTP PERIOD

Product Code	Ethiopia's Top 30 Global Exports	DFTP Status	India's import demand (USD million)	Share of Total Average Imports (%)
090111	Coffee, not roasted, not decaffeinated	Exclusion	82.8	<0.1
120740	Sesame seeds	Exclusion	9.1	<0.1
070990	Sweet corn	Exclusion	0.7	<0.1
060310	Fresh cut flowers and buds	MOP at 25%	1.2	<0.1
710813	Gold in other semi-manufactured forms	Duty-Free	2136.8	0.56
010290	Bovine animals, live, nes	Duty-Free	N/A	N/A
071333	Kidney beans	MOP at 10%	66.1	<0.1
020450	Meat of goats	Exclusion	N/A	N/A
010619	Other mammals	Exclusion	0.3	<0.0
071320	Chickpeas, whether not skinned or split	MOP at 10%	174.8	<0.1
120799	Other oil seeds	Exclusion	18.8	<0.1
410530	Dry sheep or lamb leather	Duty-Free	9.3	<0.1
071350	Broad beans and horse beans	MOP at 10%	1.7	<0.1
411200	Leather further prepared after tanning	Duty-Free	3.6	<0.1
060210	Unrooted cuttings and slips	Duty-Free	0.1	<0.1
091010	Ginger	MOP at 15%	14.6	<0.1
170111	Cane sugar	MOP at 50%	445.2	0.12
261590	Niobium, tantalum or vanadium ores and concentrates	Duty-Free	1.7	<0.1
410622	Tanned or crust hides and skins of other animals	Duty-Free	1.1	<0.1
010410	Live sheep	Duty-Free	0.1	<0.1
100590	Other	Exclusion	6.3	<0.1
100190	Wheat	Exclusion	19.8	<0.1
130190	Other natural gums	Exclusion	65.3	<0.1
071390	Other (tur)	MOP at 10%	359.6	<0.1
120210	Groundnut seeds	Exclusion	0.0	<0.1
071340	Lentils	MOP at 10%	173.1	<0.1
411310	Leather further prepared after tanning	Duty-Free	1.5	<0.1

Product Code	Ethiopia's Top 30 Global Exports	DFTP Status	India's import demand (USD million)	Share of Total Average Imports (%)
070190	Potatoes, fresh or chilled	MOP at 15%	N/A	N/A
020410	Fresh or chilled lamb carcasses	Duty-Free	0.1	<0.1
843143	Parts for boring or sinking machinery	Duty-Free	305.9	<0.1
<b>Total</b>			<b>3,899.7</b>	<b>1.02</b>

Source: Authors' calculations based on data UN Comtrade (2014).

Note: Table based on HS2002 data. The top 30 exports to the world are post-DFTP.



Other Publications from the Development and LDCs theme include:

- A Simulation Analysis of India's Duty-Free Trade Preference Scheme: A focus on African LDCs. By the National Council of Applied Economic Research. Issue Paper No. 34, 2014.
- Uganda: Deepening Engagement with India through Better Market Access. By Vinaye Ancharaz, Paolo Ghisu and Jessica Wan. Issue Paper No. 33, 2014.
- Tanzania: Deepening Engagement with India through Better Market Access. By Vinaye Ancharaz, Paolo Ghisu and Nicholas Frank. Issue Paper No. 32, 2014.
- Deepening India's Engagement with the Least Developed Countries: A Critical Analysis of India's Duty-free Tariff Preference Scheme. By Vinaye Ancharaz and Paolo Ghizu. Issue Paper No. 31, 2014.
- Evaluating Aid for Trade on the Ground: Lessons from Bangladesh. By F. Khatun, S. Hossain and N. Dewan. Issue Paper No. 30, 2013.
- Assessing the Effectiveness of Aid for Trade: Lessons from the Ground. By ICTSD. Issue Paper No. 29, 2013.
- Evaluating Aid for Trade on the Ground: Lessons from the Philippines. By Joy Abrenica, Ramon Clarete, Loreli de Dios and Maria Fe Esperanza Madamba. Issue Paper No. 28, 2013.
- Evaluating Aid for Trade on the Ground: Lessons from Ghana. By Sarah Jane Danchie, Edward Brown and Abdul Mijiyawa. Issue Paper No. 27, 2013.
- Una Evaluación de la Ayuda para el Comercio en la Práctica: Lecciones de Guatemala. Por Hugo Maul, Lisardo Bolaños, Irene Flores, Rodrigo Méndez y Gustavo Sáenz. Documento de Fondo No. 26, 2012.

#### **About ICTSD**

Founded in 1996, the International Centre for Trade and Sustainable Development (ICTSD) is an independent think-and-do-tank based in Geneva, Switzerland, with operations throughout the world, out-posted staff in Brazil, Mexico, Chile, Senegal, Canada, and Russia, and a first regional office in Beijing, China. By enabling stakeholders in trade policy through information, networking, dialogue, well-targeted research and capacity-building, ICTSD aims to influence the international trade system so that it advances the goal of sustainable development. ICTSD co-implements all its programmes through partners and a global network of hundreds of scholars, researchers, NGOs, policymakers and think-tanks around the world. ICTSD acknowledges the contribution of its donors in supporting this project.