Policy brief

Ethiopia: macroeconomic and trade profile

Opportunities and challenges towards implementation of the AfCFTA

Yohannes Ayele and Sherillyn Raga

February 2023

Series ODI–GIZ AfCFTA policy brief series

Key messages

- Largely because of the disruptions caused by Covid-19 and the intensification of conflict in Northern Tigray, Ethiopia's GDP growth slowed to 6% in FY 2020/21, compared with 9% in FY 2018/19. Growth is expected to slow to 3.8% in FY 2021/22, as previous shocks are compounded by the spillover effects of the Russia–Ukraine war and global financial tightening. Ethiopia is currently at high risk of debt distress and is seeking debt treatment from the G20.
- A ceasefire was announced in November 2022 but the conflict situation in Tigray remains fragile. Several garment firms have reported closures and/or layoffs as a result of the conflict. FDI inflows declined by 17% in FY 2021/22. Ethiopia's GDP could decline by up to 5% under a worst-case scenario in which the peace agreement breaks down and the conflict further escalates.
- Ethiopia had relatively lower trade openness (27% of GDP) compared with sub-Saharan African countries overall (50% of GDP) as of 2020. The operating revenue of Ethiopian Airlines alone (mostly exports of services) was higher ($5 billion) than goods exports ($3.9 billion) as of FY 2021/22. Coffee, oil seeds and chat dominate Ethiopian exports but there is room to support exporting of food preparations, processed vegetables, flowers and semi-manufactured gold, given increasing world demand and Ethiopia's efficiency in these products.
- Intra-African goods trade comprised 10.8% of Ethiopia's trade as of FY 2020/21. Ethiopia's list of tariff offers for the AfCFTA has been prepared but is yet to be submitted to the AfCFTA Secretariat.
- Ethiopia's nascent stage of global and regional trade integration limits its experience on full FTA processes, indicating significant preparatory needs (e.g. in drafting offers, negotiations, domestication of FTA commitments, institutional capacity for implementation) before the country can participate meaningfully in the AfCFTA. The international community could provide targeted capacity support to help Ethiopian policy-makers expedite their AfCFTA participation and to craft and implement a national AfCFTA strategy.

german cooperation
DEUTSCHE ZUSAMMENARBEIT

Implemented by giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Acknowledgements

The authors would like to thank Dirk Willem te Velde for comments on earlier drafts, as well as Julienne Cullen for research assistance. The authors are also grateful for the financial support of GIZ on behalf of the German government. The views presented in this publication are those of the authors and do not necessarily represent the views of GIZ or ODI. Comments welcome to s.raga@odi.org.uk.

About this publication

This brief aims to inform relevant stakeholders, including the private sector and non-AfCFTA experts, on Ethiopia's current economic situation and its implementation of AfCFTA. It represents an update of the first edition of a paper on Ethiopia's macroeconomic and trade profile published by ODI in February 2022. Data and information for this update were mostly collected between October and December 2022.

This ODI–GIZ policy brief series is part of a larger project titled the GIZ Support Programme to the AfCFTA. This supports GIZ's partners on the continental (African Union Commission, AfCFTA Secretariat), regional (currently East African Community and Economic Community of West African States; planned Southern African Development Community) and national levels on the negotiations surrounding and implementation of the AfCFTA.

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

About the author

Yohannes Ayele is a Senior Research Officer at ODI. Prior to his current work, he worked as a Research Fellow at the UK Trade Policy Observatory at the University of Sussex, focusing primarily on quantitative analysis of international trade, firms in international trade, FTAs and trade policy. He holds a PhD in Economics from Aarhus University and an MSc in Economics from Copenhagen University

Sherillyn Raga is a Research Fellow at ODI. Sherillyn has a decade of professional experience on policy-oriented research covering macroeconomics, financial integration, trade and investment in Asian and African contexts. Prior to joining ODI, she worked at the Philippine central bank, the International Monetary Fund and the Asian Development Bank. Sherillyn has an MSc in Economics for Development from the University of Oxford.

1 Recent socioeconomic developments

Ethiopia is the second most populous country in Africa, with a population of 118 million,[1] and is a development success on several measures (Table 1). Prior to the Covid-19 pandemic, Ethiopia was one of the fastest-growing economies in the world, and the fastest-growing in Africa, with an annual growth rate of 9.1% over the decade to FY 2019/20.[2] This economic growth was influenced by a shift in government strategy in 2010 from agriculture-led to manufacturing-led growth, supported by significant public infrastructure investment (see MoF,[3] 2010; Haile, 2018; World Bank, 2022a). The growth was accompanied by longer years of life expectancy, gradual poverty reduction, a reduction in gender inequality and an overall improvement on the Human Development Index (Table 1).

Table 1 Ethiopia country facts and social indicators

Capital: Addis Ababa			
Geographical size: 1.1 million km^2; landlocked in the Horn of Africa; shares border with Djibouti, Eritrea, Kenya, Eritrea, Somalia, South Sudan and Sudan			
Languages: Amharic as the federal language; Oromiffa and Tigrigna widely spoken			
Currency; exchange rate: Ethiopian birr (ETB); US$1 = ETB 51.5, weighted average official exchange rate as of fourth quarter of FY 2021/22 (April–June 2022)			
	2000	**2010**	**2021/latest**
Population (million)	62.2	87.6	117.9
Dependency ratio (%)[1]	92.1	86.8	69.6
Life expectancy (years)	50.5	59.7	65
Mean years of schooling	1.5	2.1	3.2
Gross national income per capita (constant 2017 purchasing power parity $)	726	1,257	2,277
Poverty rate (% of population living on less than $2.15 a day, 2011 purchasing power parity)	34.3[2]	31.3	25.9[3]
Unemployment rate (%)	3.5	2.3	3.7
Gender Inequality Index[4]	0.7[5]	0.596	0.52
Human Development Index[6]	0.287	0.412	0.498

Notes: 1 dependency ratio of the young (0–14 years old) to the working-age (15–64 years old) population; 2 as of 2004; 3 estimate; 4 higher score = higher gender inequality; 5 = as of 2001; 6 higher score = better human development.
Sources: Ethiopian Embassy in London (2017); Ethiopian Embassy in Belgium (2021); NBE (2022); UNDP (2022); World Bank (2022d).

However, the high economic growth registered from the 2000s on resulted in rapid build-ups of domestic and foreign debt, and in double-digit inflation. In response, in 2018 the new Ethiopian government started its Homegrown Economic Reform, with the aims of increasing the government's efficiency, liberalising the economy and opening the country to foreign firms. More recently, new challenges related to a combination of external and domestic shocks, such as the Covid-19 pandemic, the

[1] Based on data from the World Development Indicators (WDI).
[2] Authors' computations based on WDI data. Average annual growth rates in 2011–2020 in 49 other African countries range from -3% in Equatorial Guinea to 9.1% in Ethiopia. The annual rate for Ethiopia refers to the fiscal year, which begins in July.
[3] The Ministry of Finance (MoF) was formerly known as the Ministry of Finance and Economic Development and then as the Ministry of Finance and Economic Cooperation. The powers and duties given to the latter under the provisions of other, earlier, laws have been vested in the MoF since 2018, based on Proclamation No. 1097/2018.

Russia–Ukraine war spillover effects on commodity prices, drought and conflict in Tigray, have magnified Ethiopia's economic vulnerabilities. Compared with 9% gross domestic product (GDP) growth in FY 2018/19, growth slowed during the pandemic to around 6% in FY 2019/20 and FY 2020/21 (Table 2). Growth was buoyed by the relatively resilient agriculture sector, which was not significantly affected by Covid-19 disruptions (World Bank, 2022a).

The government's Covid-19 fiscal response measures, worth $3 billion (or 3.1% of GDP),[4] contributed to the widening of the public deficit to 2.8% of GDP in FY 2019/20, from 2.5% of GDP previously (Table 2). In June 2021, the government reported spending ETB 100 billion (approximately $2.3 billion) on rehabilitation and humanitarian works following conflict in Tigray (MFA, 2021), which put additional pressure on fiscal accounts. However, data from the National Bank of Ethiopia (NBE) suggest that grants declined by 15.6% in FY 2020/21 (NBE, 2021c), which may have been influenced by the conflict in northern Ethiopia. For instance, the EU suspended its €88 million ($107 million) in budget support to Ethiopia as a result of it blocking access by humanitarian actors to refugee camps (Reuters, 2021a). The government also claimed that the conflict was the primary reason that the World Bank extended only $300 million of its $3 billion financing for Ethiopia (Taye, 2022).

For the FY 2022/23 budget year, the Ethiopian government approved ETB 787 billion (11% of GDP), with the budget deficit increasing to 4.1% of GDP, up from 3% in the previous year (Ethiopia Monitor, 2022a). Close to 90% of the approved budget is financed from domestic sources (UNICEF, 2022). High government domestic borrowing adds risk to debt distress (e.g. higher interest rates, short-term maturity), and, if financed by the central bank, may exacerbate the already high inflation. The war may also have affected the capital-recurrent budget allocation. The share of capital expenditure is 39% of the total budget for FY 2022/23, down from 53% in the previous fiscal year, and one of the lowest capital expenditures allocated for over a decade. The lower capital expenditure allocation, usually spent on productive investment, may negatively affect the country's long-term economic growth.

The World Bank and the International Monetary Fund (IMF) have classified Ethiopia as at high risk of debt distress since 2020 (World Bank and IMF, 2020). The Ministry of Finance (MoF) recognises the refinancing, interest and exchange rate risks associated with Ethiopia's public debt composition (e.g. high proportion of short-maturity debt, external debt) (MoF, 2022a; 2022b). In this regard, the government has put a limit on non-concessional borrowing by state-owned enterprises, to boost export performance to generate foreign currencies to pay the principal and debt servicing of the external debt.

Ethiopia applied to the G20 Common Framework for Debt Treatment in February 2021. This was followed quickly by credit rating downgrades by major credit rating agencies Fitch (9 February 2021), S&P (13 February 2021) and Moody's (17 May 2021). A Creditor Committee (co-chaired by China and France) was formed in September 2021. By July 2022, this had released a statement that it would 'pursue its work to find an appropriate solution to external debt vulnerabilities of Ethiopia, in a timely, orderly and coordinated manner' (G20, 2022). Ethiopia has also requested IMF financing of more than 100% of its allowance, but the latter is waiting on progress or on the prospects of the Creditor Committee on debt treatment for Ethiopia to form part of an IMF package (see IMF, 2022). Progress has been slow, mainly because of the civil war in the country (Rosario and Savage, 2022).

[4] Estimates by the International Monetary Fund (IMF) based on fiscal responses announced between January 2020 and September 2021 (IMF, 2021b). Packages in the database show implementation coverage from 2020, 2021 and beyond.

The IMF projects that GDP growth in FY 2021/22 will decline to 3.8% as a result of the combined impact of conflict in the north, lower agricultural production owing to drought, the sharp fall in donor financing, intensifying foreign exchange shortages and spillovers from the Russia–Ukraine war (IMF, 2022). Inflation, which peaked at 37.3% in May 2022 and slowed to 30.7% as of September 2022,[5] is projected to average at 33.6% over the year (Table 2). Simulations by Tamiru and Gebrewolde (2022) suggest that the Russia–Ukraine war, with implicit consideration also of Covid-19 and other recent shocks, will induce a decline by 10.1% in the services sector, by 5.8% in agriculture and by 4.4% in manufacturing.

Table 2 Selected macroeconomic performance and financial sector performance indicators and forecast in Ethiopia

	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22f	FY 2022/23f	FY 2023/24f	FY 2024/25f
Real GDP (% growth)	9	6.1	6.3	3.8	5.3	6.2	6.8
Total investment (% of GDP)	35.3	30.8	28	22.2	22.4	22.2	21.9
Average consumer prices (% growth)	15.8	20.4	26.8	33.6	28.6	21.1	14.4
Government revenue (% of GDP)	12.8	11.7	11	9	10.1	10.3	10.7
Government expenditure (% of GDP)	15.4	14.5	13.8	12.1	13.1	13.3	13.7
Gross fiscal balance (% of GDP)	-2.5	-2.8	-2.8	-3.1	-3	-3	-3
Primary fiscal balance (% of GDP)	-2	-2.4	-2.2	-2.4	-2.3	-2.2	-2.2
Gross government debt (% of GDP)	54.7	53.7	53.0	46.4	40.4	37.4	35.6
Current account balance (% of GDP)	-5.3	-4.6	-3.2	-4.3	-4.4	-3.6	-2.7

Notes: e indicates estimates and f indicates forecast. Estimates begin after 2021. FY begins in July.
Source: IMF (2022).

On 2 November 2022, Ethiopia's warring parties (i.e. the Ethiopian government and the Tigray People's Liberation Front) agreed on a permanent cessation of hostilities (Burke, 2022). The government estimates that damage to infrastructure, schools and institutions in Tigray, Amhara and Afar regions will amount to $20 billion (Borkena, 2022). However, the government also expects that the peace process will lead to 7.5% GDP growth in FY 2022/23 (Taye, 2022), higher than the latest IMF forecast, of 5.3% (Table 2). Nevertheless, the intensification of the conflict remains a downside risk to Ethiopia's growth outlook. Ayele et al. (forthcoming) estimate that, compared with a baseline of continued conflict (e.g. the conflict situation prior to the accord in November 2022), an escalated conflict inside and beyond Ethiopia may lead to a 5% decline in GDP.

Against this backdrop, the next section (Section 2) presents Ethiopia's trade landscape and business environment. This is followed by a more focused discussion on Ethiopia's intra-African trade and progress on AfCFTA implementation (Section 3). Section 4 identifies Ethiopia's strengths, weaknesses, opportunities and threats in relation to maximising benefits from the AfCFTA, and trade and investment more generally. Section 5 concludes.

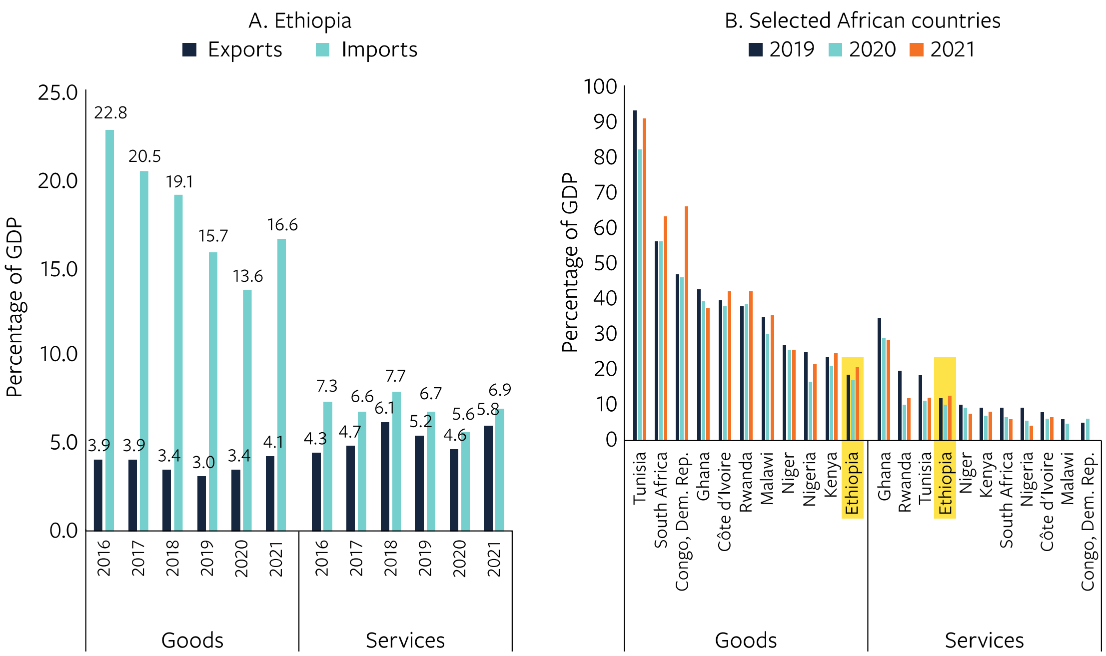
[5] Based on monthly Consumer Price Index (CPI) reports from the Ethiopian Statistics Service website (www.statsethiopia.gov.et/our-survey-reports/)

2 Trade landscape and business environment

2.1 Trade landscape

Ethiopia had relatively low trade openness (27.2% of GDP)[6] compared with sub-Saharan African countries (50% of GDP)[7] as of 2020. In addition, the importance of trade (as a share of GDP) in Ethiopia declined between 2016 and 2020 (Figure 1A). This was driven by declining imports from 2016, partly explained by a reduction in public investment and a foreign exchange shortage (USDoS, 2021). The increase in overall trade to 33.4% of GDP in 2021 was driven by increased imports, largely because of a surge in the value of imported fuel, consumer goods and fertilisers – products that registered significant increase in global prices in 2021.

Figure 1 Ethiopia and selected African countries' trade in goods and services (% of GDP)



Source: Authors' computations based on UNCTAD data accessed in October 2022.

With a small export base, Ethiopia has been a net importer of both goods and services (Figure 1A). As of 2021, estimates suggest exports had increased by 23.4% (to $9.5 billion) while imports had similarly increased by 22.2% (to $22.6 billion), resulting in a widening trade balance equivalent to 13.6% of GDP (vs 11.2% in 2020) (UNCTAD, 2022a). It may be noted, however, that Ethiopia's services exports (mainly travel and transport provided by Ethiopia Airlines) are of higher value than its goods exports. On average, annual services exports were equivalent to 5.3% of GDP

[6] Total trade refers to the sum of imports and exports of goods and services.
[7] Based on WDI data.

between 2017 and 2021, while annual goods exports averaged 3.5% of GDP during the same period (Figure 1A). In FY 2021/22, when most Covid-19 restrictions had been lifted, Ethiopian Airlines' operating revenue alone ($5 billion) was higher than the total value of goods exports ($3.9 billion) (UNCTAD, 2022a; Xinhua, 2022a).

Based on NBE data,[8] five products make up nearly 70% of Ethiopia's total goods exports from FY 2016/17 to 2020/21: coffee, oil seeds, chat, flowers and pulses. Notably, during the pandemic, favourable global gold prices led to an increase in the value of Ethiopia's gold exports from $28 million (1% of total exports) in FY 2018/19 to $197 million (6.6% of total exports) in FY 2019/20 and $672 million (18.6% of total exports) in FY 2020/21.

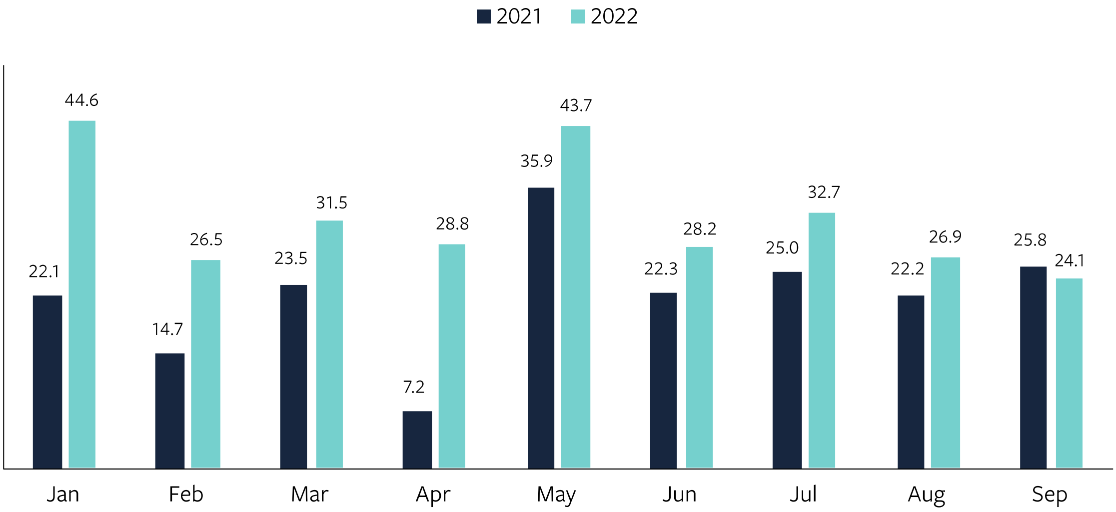
Half of Ethiopia's goods exports in the past five fiscal years have gone to 10 destinations, led by the Netherlands, the US, China, Saudi Arabia and Germany.[9] Exports to all top destinations have been increasing, except for those to China, which declined by more than 27% between FY 2016/17 and FY 2020/21. The decline in Ethiopian exports to China was driven by a significant reduction in Ethiopian sesamum seeds going to Chinese markets over the period.[10]

Ethiopia's export industry is facing significant challenges related to the ongoing and spreading conflict in Tigray. The region is responsible for 40% of Ethiopia's sesame production, and the conflict may partly explain the 21% fall in oil seed exports in 2021 (Berhe, 2019; UNCTAD, 2022a). Regional authorities in Amhara, Ethiopia, reported that about 10% of agricultural production had already been lost as a result of conflict during the second half of 2021 (World Bank, 2022b). In addition, on 1 January 2022, the US effectively terminated African Growth and Opportunity Act (AGOA) trade preferences for Ethiopia (USTR, 2022). In 2020, almost half of Ethiopia's US-bound exports were traded under AGOA, mostly comprising garments, leather footwear, leather goods, flowers and vegetable products (Naumann, 2021).

However, monthly US Census data for 2022 showed a continued increase in US imports from Ethiopia between January and September of 27.9% compared with the same period in 2021 (see Figure 2 for exports of textiles to the US). The full impact of the AGOA sanctions may be more evident from data starting in mid-2022, since garment orders are typically placed a year in advance, and some manufacturing firms have temporarily offered to bear the duty taxes in full or partially (see Seleshie, 2022; World Bank, 2022c). Figure 3 gives a breakdown of the average unit production costs of a jacket in Ethiopia with and without AGOA tariffs and different scenarios to compensate the loss of competitive advantage because of the suspension of Ethiopia from AGOA. It shows that the current average unit cost of production for a jacket in Ethiopia before tariff is $11.50; after AGOA tariffs, the cost becomes $14.70. The figure shows that, even if the Government of Ethiopia decides to subsidise 50% of the labour cost and factory overheads, this would not be enough to offset the AGOA tariff loss. This demonstrates how the suspension of Ethiopia from AGOA affects the competitiveness of Ethiopian textile and apparel exporters.

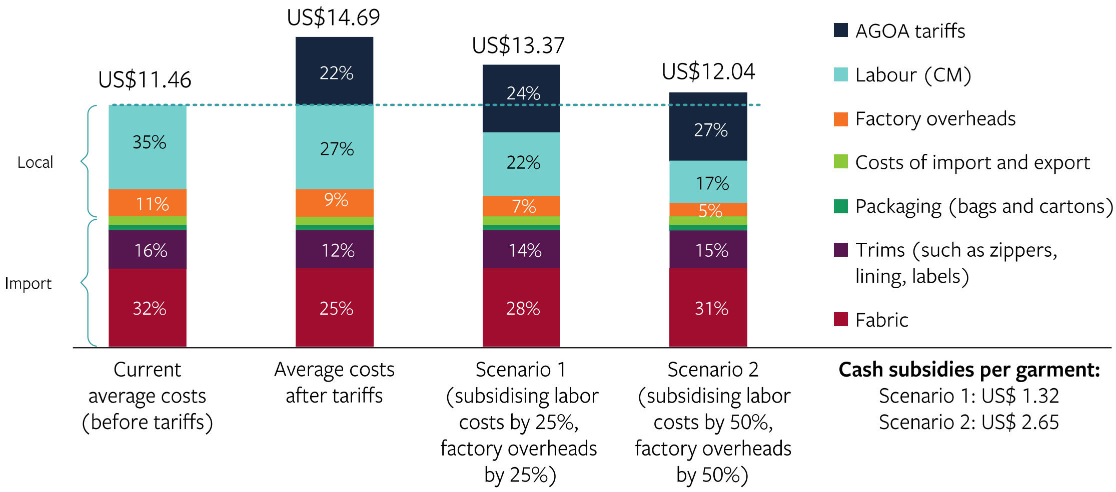
[8] Authors' computations based on data from NBE (2017; 2018; 2019; 2020; 2021c).
[9] Authors' computations/analysis based on data from NBE (2018; 2019; 2020; 2021c).
[10] Ethiopia's sesamum seed exports, amounting to $192 million, comprised 78% of total exports to China in 2017; this had decreased to $8 million (9.4% of total exports to China) as of 2021 (UNCTAD, 2022a).

Figure 2 Ethiopia exports of textiles and textile articles to the US (US$ million)



Source: Authors' compilation based on data from USITC database.

Figure 3 Breakdown of average unit production costs of a jacket in Ethiopia (US$ and % share of total cost)

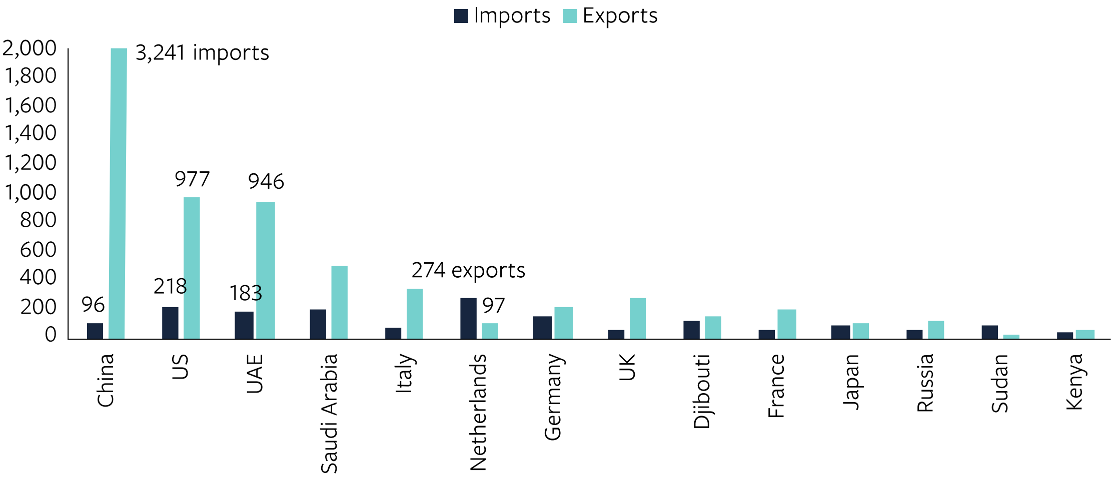


Source: World Bank (2022c).

Meanwhile, Ethiopia's main imported goods in the past five fiscal years (to FY 2020/21) were machinery and aircraft (15.3%), petroleum products (13.8%), metal and manufactured metals (10.3%), food (including cereals) and live animals (7%) and electrical materials (6.7%).[11] It might be noted, though, that there were significant increases in the value (by 132%) and share in total exports (by 4 percentage points, to 10.3%) of food and live animals in FY 2020/21, owing to the increasing global prices of food during the fiscal year. During the same period, more than a quarter of Ethiopia's imports were from China, followed by the US (7.6%) and the United Arab Emirates (4%). In FY 2019/21, Ethiopia registered its largest trade deficit (exports less imports) with China. Ethiopia's exports to the Chinese market reached $95.7 million, compared with $3.2 billion worth of imports from China (Figure 4).

[11] Authors' computations based on data from NBE (2021c; 2022).

Figure 4 Exports and imports with Ethiopia's top trading partners, FY 2020/21 (US$ million)



Source: Authors' computations based on import and export data from NBE (2021c).

We investigate the revealed comparative advantage (RCA) of Ethiopia's top 25 products and world demand for such products (sourced globally) between 2017 and 2021 (or latest available).[12] Table 3 presents Ethiopian products that can be supported through export promotion or interventions to increase competitiveness. This list can be leveraged as the country gradually opens up its economy, such as through its resumption of World Trade Organization (WTO) accession negotiations in January 2020 after eight years (WTO, 2020). The latest negotiation meeting was held in February 2021 (WTO, 2021). In its latest 10-year development plan (up to 2030), the country aims to increase the number of its foreign trade destinations from 37 to 96, via WTO accession, implementation of African free trade zone agreements, bilateral trade agreements and trade promotion activities (PDC, 2021).

Table 3 Export products for promotion and targeted intervention

	Increasing RCA (e.g. for export promotion, facilitation)	**Declining RCA** (e.g. intervention to increase competitiveness)
Increasing world demand	• coffee, not roasted or decaffeinated • cut roses • vegetable roots and tubers • soya beans • live plants • cut flowers other than roses, carnations, orchids, chrysanthemums or lilies • other fresh or chilled vegetables • babies' cotton garments and clothing, knitted or crocheted	• semi-manufactured gold • sesamum seeds • kidney beans • other dried leguminous vegetables • vigna mungo and hepper or vigna radiata beans • other oil seeds and oleaginous fruits • dried vegetable mixtures • dried broad beans and horse beans • food preparations (e.g. communion wafers, empty cachets for pharmaceutical use, sealing wafers, rice papers) • live cattle
Declining world demand	• live sheep • men's or boys' cotton trousers, bib and brace overalls, breeches and shorts, not knitted or crocheted • men's or boys' cotton shirts, not knitted or crocheted	• goat meat • chickpeas • prepared sheep or lamb leather • prepared leather of goats and kids • precious(other than diamonds) and semi-precious stones

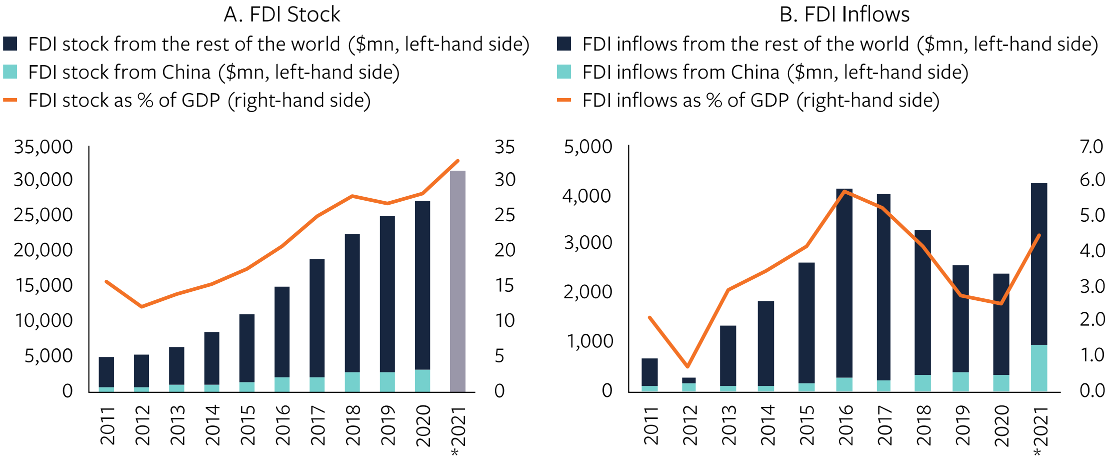
Source: Authors' compilation using WITS data.

[12] The top 25 products are based on their annual average percentage of total exports at the 6-digit category level from 2017 to 2021, while world demand refers to world imports of such products sourced globally during the same period. Data are from the World Integrated Trade Solution (WITS).

2.2 Foreign direct investment

Ethiopia's FDI has grown steadily in the past decade, including in recent years when the country faced multiple shocks from domestic and external developments. As of 2021, FDI stock reached $31.6 billion, or 32% of GDP (Figure 5A). FDI inflows amounted to an average of $3 billion a year over 2017–2021 (Figure 5B).

Figure 5 FDI stock and inflows to Ethiopia



Note: For FDI stock, data refer to FDI inflows from all countries (no data are available for FDI stock from China as of 2021). *The authors estimate that Chinese FDI inflows reached $932 million in 2021, based on UNCTAD (2022a), which shows that Chinese investments had tripled compared with the Chinese investment in previous year ($310 million, based on CARI, 2022).
Source: Authors using aggregated FDI data from UNCTAD (2022a) and Chinese FDI from CARI (2022).

In the five years to 2021, FDI was relatively lower in 2019, at $2.5 billion, owing to the investment disruptions caused by instability in some parts of the country, including regions with industrial parks (UNCTAD, 2020a). During the pandemic in 2020, FDI inflows declined further to $2.4 billion, which mostly went to manufacturing, agriculture and hospitality industries (UNCTAD, 2021). The Ethiopian government initiated a programme to facilitate foreign investment in the manufacturing of personal protective equipment, and several Chinese firms started production during the year (ibid.). Notably, there has been fast-rising FDI from Chinese investors in recent years, largely driven by low labour costs (Ergano and Rambabu, 2020). By 2021, Chinese investments had tripled, as reinforced by Ethiopia's position as a central hub for the Belt and Road Initiative – contributing to the 61% growth in FDI inflows to $4.3 billion (UNCTAD, 2022a).

Meanwhile, recent reports suggest that Ethiopia attracted $3.3 billion worth of FDI from 168 investors in FY 2021/22 (Xinhua 2022b; 2022c). China, India, Turkey and the United Arab Emirates were the top countries investing in Ethiopia. Of the 168 investor licences, 62 went to companies from China, 14 to companies from Europe and 13 to companies from various African countries, including Morocco, South Africa and Sudan. By sector, 100 licences were in manufacturing, 62 were in services and six were in agriculture (Xinhua, 2022c). Export earnings from industrial parks also reached $202.5 million, an increase of $24.4 million compared with earnings in FY 2020/21 (ibid.). More recently, Norway-based Akobo Minerals announced that it would set up a new gold mine in Ethiopia in the first quarter of 2023 – the first since 1994 (Whitehouse, 2022).

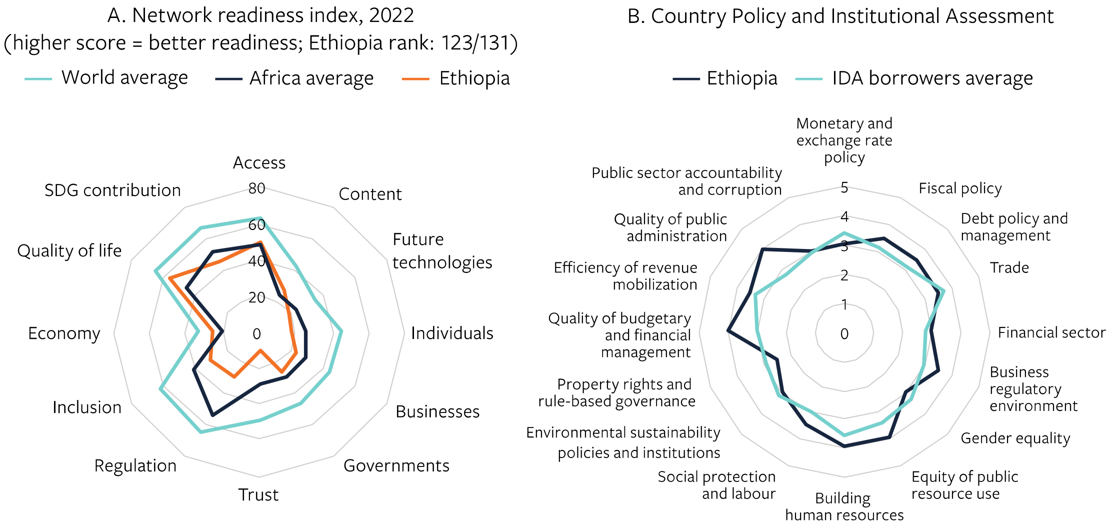
Latest official data from the NBE for the fourth quarter of FY 2021/22 suggest that, while FDI inflows exhibited quarter-on-quarter growth in the first three quarters of the year, total FDI inflows in FY 2021/22 had declined by 16.7% to $3.3 billion compared with nearly $4 billion in the previous fiscal year. This may partly reflect slowing investor interest in view of recent overlapping domestic and external shocks facing Ethiopia.

2.3 Business environment

Ethiopia's business environment has benefited from the country's improved transport and energy infrastructure, low labour costs, large and growing domestic market, cheap power, preferential access to major markets such as the EU and the US and growing integration with African countries (e.g. the Common Market for Eastern and Southern Africa, COMESA; AfCFTA) (IFC, 2019). However, the country's business environment has also faced several challenges. Various reports have highlighted Ethiopia's poor performance on trade logistics, digital readiness, access to finance and foreign currency, access to electricity, labour turnover, and policy consistency and coordination (Lloyd and Teshome, 2018; IFC, 2019; Figure 6).

As Ethiopia is a landlocked economy, efficiency of logistics is especially critical for international trade and development. However, the sector is characterised by underdeveloped transport systems, inadequate terminals and inefficient logistics. Some estimates indicate that these costs could comprise approximately 22–27% of the final costs for many products. Shipping and freight costs are approximately 60% higher than in neighbouring countries (USTR, 2021).

Figure 6 Digital readiness and quality of policy and institutions (higher score = better performance)



Sources: Figure 6A based on NRI data on networkreadiness.org by Portulans Institute (2022). Figure 6B data based on World Bank CPIA 2021 database. Aggregate scores (world and Africa) are based on simple averages.

The intensification of the conflict in northern Ethiopia since November 2020 has added difficulties to the business environment, and the impact of the ceasefire announcement in November 2022 is yet to be seen.[13] Meanwhile, the impact of AGOA sanctions is mostly visible in the garment sector. In Hawassa Industrial Park, exporting factories accessing the AGOA preferences reported laying off 5,600 workers (Taye, 2022). Some garment manufacturers reported that they had absorbed 30–70% of tariffs with clients, which may not be sustainable given the typical 10% firm profit margins (Seleshie, 2022). The following describes the responses to the conflict/AGOA sanctions from specific companies:

[13] Ethiopia ranked 87 out of 180 on the Corruption Perceptions Index (TI, 2022), 159 out of 190 on Ease of Doing Business (World Bank, 2020b) and 117 out of 132 on the Gender Inequality Index (UNDP, 2022) in 2021.

- A global fashion company (PVH corporation) has decided to close its manufacturing facilities in Ethiopia (Reuters, 2021b).
- Hop Lun Ltd, a Hong Kong company that leased eight manufacturing sheds in Bahir Dar Industrial Park in 2019 to export 100% of its products to the US, is on the verge of exiting Ethiopia owing to the AGOA suspension (Endale, 2022c).
- Hela Indochina Apparel plc, a Sri Lankan and Chinese consortium, is about to cut 900 employees; Submarine garments is to cut 264 employees; Indian-owned Best International Garment is in the process of cutting 3,000 workers.
- Epic Apparel plc has leased two sheds in Hawassa Industrial Park and invested $6.5 million. In view of a substantial drop in international orders (mainly from the US), the company has reduced its staff by a third (600 workers) (Gebre, 2022).
- Quadrant Apparel Group, an Ethiopian and Spanish-owned company in Hawassa Industrial Park, has given half of its 300 workers two months' notice with pay (Addis Fortune, 2022).
- Jay Jay Textiles plc, an Indian-owned company stationed in Bole Lemi Industrial Park specialising in children's clothing, said that production had dropped by three-quarters after AGOA suspension, leading to layoffs of 10% of its 9,000 workers (Italo, 2022).
- The United States Fashion Industry Association conducted a survey of 34 executives at leading US fashion companies between April and June 2022. The results indicate that 67% of respondents have stopped or reduced sourcing from Ethiopia; for 50%, Ethiopia's loss of AGOA eligibility has negatively affected their company's interest in sourcing from the entire AGOA region; and no respondent has moved sourcing orders from Ethiopia to other AGOA members. As a result of the loss of AGOA benefits, the number of respondents sourcing from Ethiopia fell from 20% in 2021 to an estimated 9% in 2022 (Lu, 2022).

While the coffee industry is less affected by the conflict (most coffee-growing areas are in southwest Ethiopia), interviews with coffee growers reported negative impacts of the conflict via disrupted coffee supply chains, increased difficulty in accessing loans and central bank restrictions on using foreign currency from export sales (PDG, 2022). Inside Tigray, communications and banking services have largely been severed (AP, 2022). More than 600 branches of financial institutions in the region have gone out of service (Taye, 2022).

Nevertheless, the government has taken several initiatives to enhance productivity and competitiveness, and to transition from public to private sector-led growth, as prioritised in its 'homegrown economic reform' agenda since 2019. In the latest 10-year plan (for 2021–2030), creating a pragmatic market-based economic system and enhancing the role of the private sector is the number one objective (PDC, 2021). Key priority areas include reforms and policies for:

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

Despite the overlapping shocks, the government has continued to conduct investment promotion inside and outside Ethiopia and to implement reforms to improve the investment climate and facilitate investment (ENA, 2022a). For example, the past three years have seen the following:

- a new Investment Proclamation and Investment Regulation (replacing No. 270/2012) in September 2020 (UNCTAD, 2022b)
- ratification of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards in 2020 (UNIS, 2020)
- a new Commercial Code (replacing the 1952 version) and Arbitration and Conciliation Working Procedure (embedded in the 1960 Civil Code and the 1965 Civil Procedure Code) in April 2021 (ibid.)
- issuance of one telecom licence to Safaricom in 2021, and announcement of a bid to sell eight sugar companies for both international and domestic investors (Ethiopia Monitor, 2022b)
- launch of the eTrade platform in February 2021, which enables business to register for licences and acquire business online[14]
- launch of Ethiopia Investment Holdings, aimed at attracting investment for at least $150 billion worth of state-owned companies and assets in February 2022; this allows a degree of private investment within the country's long-standing state-led development model (Schipani, 2022)
- new investment incentives put in place in July 2022, including income tax exemptions for investors from the date of obtaining the business licence or expansion permit; allowing investors to import capital goods, construction materials and motor vehicles free of custom duties; and expansion of incentives to the mining, petroleum and geothermal sectors (UNCTAD, 2022b)
- ratification of a policy and strategy document to liberalise Ethiopia's banking sector in August 2022; the central bank has been finalising preparations for the legal frameworks and the opening-up process is to commence within a year (Endale, 2022a)
- approval of the National Special Economic Zone Policy in August 2022 (ENA, 2022b).

[14] https://etrade.gov.et/

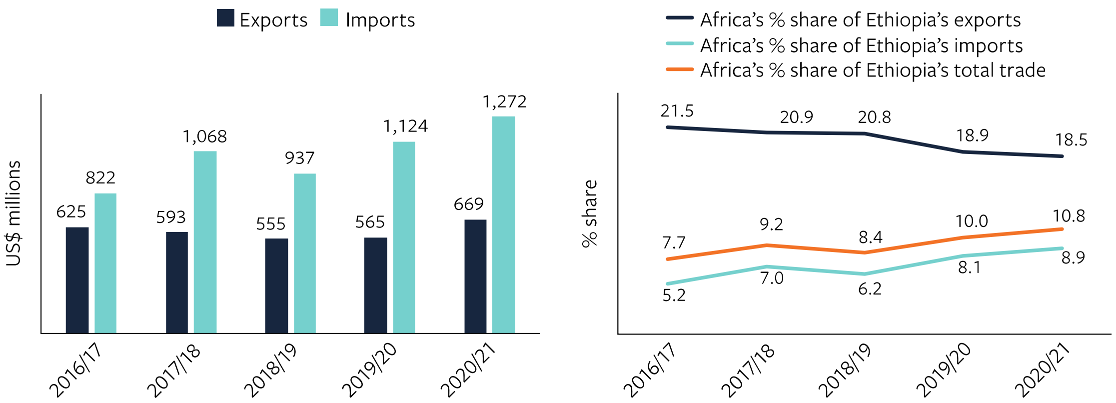
3 Intra-African trade performance and AfCFTA

3.1 Background: Ethiopia's goods trade with Africa

Intra-African goods trade (imports + exports) comprised 10.8% of Ethiopia's total trade as of FY 2020/21. Ethiopia has been a net importer with African countries, with a trade deficit that widened from $197 million in FY 2016/17 to $602 million in FY 2020/21 (Figure 7).

In the past five fiscal years, according to NBE data, 80% of Ethiopia's exports to the continent have gone to Somalia, Djibouti and Sudan.[15] Between 2017 and 2021, vegetables made up more than half of exports, and coffee around 10% (UNCTAD, 2022a). Meanwhile, according to the NBE, 80% of Ethiopia's imports from Africa between FY 2016/17 and FY 2020/21 were sourced from Morocco, Egypt and South Africa. Ethiopia's top imported products from Africa during the same period included fertilisers (45.5%), palm oil (17.9%) and solid fuels manufactured from coal (5.2%).

Figure 7 Ethiopia's intra-African trade in goods, 2016/17 – 2020/21



Source: Authors' computations based on data from NBE (2017; 2018; 2019; 2020; 2021c).

Trade-weighted most-favoured nation (MFN) tariff rates imposed by Ethiopia on imports from Africa ranged from zero for Botswana to 33.8% for Cape Verde in 2018.[16] Ethiopia extends preferential tariffs to 12 African countries,[17] which, like Ethiopia, are part of COMESA. It may be noted, however, that Ethiopia is not yet participating in the COMESA free trade agreement (FTA). However, in November 2021, Ethiopia informed the COMESA Council that it had been studying the process of joining the COMESA FTA *vis-à-vis* the AfCFTA (COMESA, 2022a). COMESA, the East African Community (EAC) and the Southern African Development Community (SADC) are part of ongoing negotiations to realise a Tripartite FTA (TFTA). As of

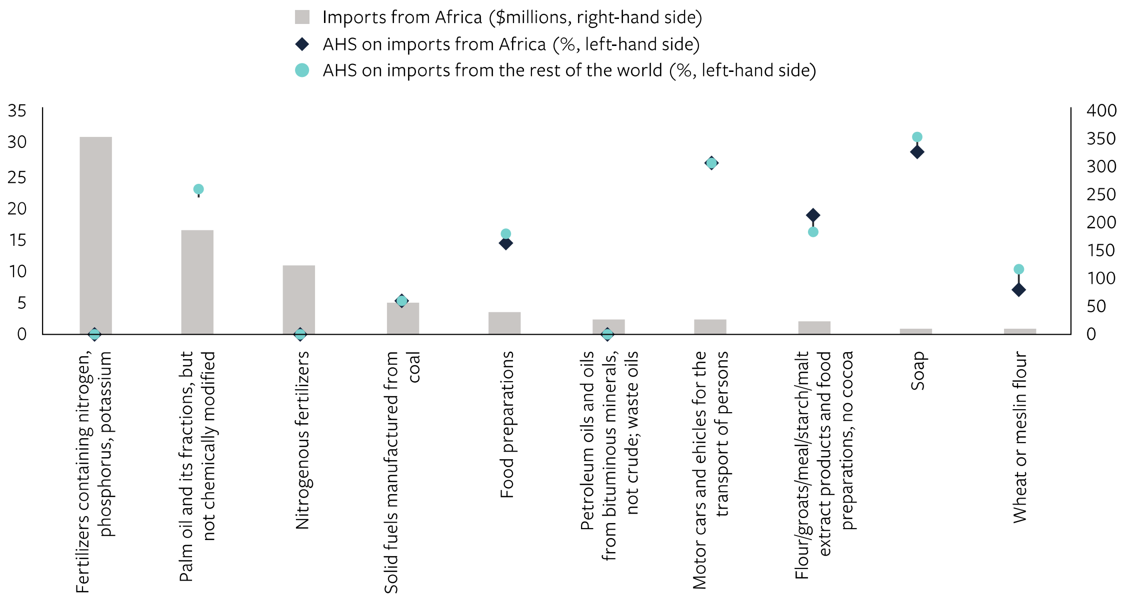
[15] Authors' computations based on data from NBE (2017; 2018; 2019; 2020; 2021c).
[16] Based on the 2018 tariff year and 2015 trade data from WITS.
[17] Based on WITS data, the 12 countries where Ethiopia extends preferential tariffs are Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Uganda, Zambia and Zimbabwe.

November 2022, 11 countries had ratified the agreement; 14 ratifications are required for the TFTA to enter into force (Kazunga, 2022).

At the continental level, tariffs will be liberalised in stages, apart from for 'sensitive' and 'exclusion list' products under the AfCFTA. Tariffs will be liberalised (to zero) for 90% of tariff lines over a period of ten years for least developed countries (LDCs), five years for non-LDCs, and 15 years for six selected countries (including Ethiopia)[18] (Hartzenberg, 2023). Sensitive products shall not exceed 7% of total tariff lines, while the exclusion list shall not exceed 3% of total tariff lines with an intra-Africa total trade value limit of not more than 10% (ibid.).

Figure 8 shows the top 10 imported products by Ethiopia from African countries, which account for 77.8% of imports from the continent.[19] Effectively applied tariff, or AHS, is defined by the World Integrated Trade Solution (WITS) database as the lowest existing preferential tariff rates or applied MFN tariffs. Figure 8 also shows that the AHS imposed by Ethiopia on imports from Africa is broadly the same as the AHS imposed on imports from the rest of the world, indicating that there is room for Ethiopia to extend preferential rates to African neighbours under the AfCFTA.

Figure 8 Effectively applied tariff rates (AHS) on Ethiopia's imports from Africa and the rest of the world, 2021 (%)



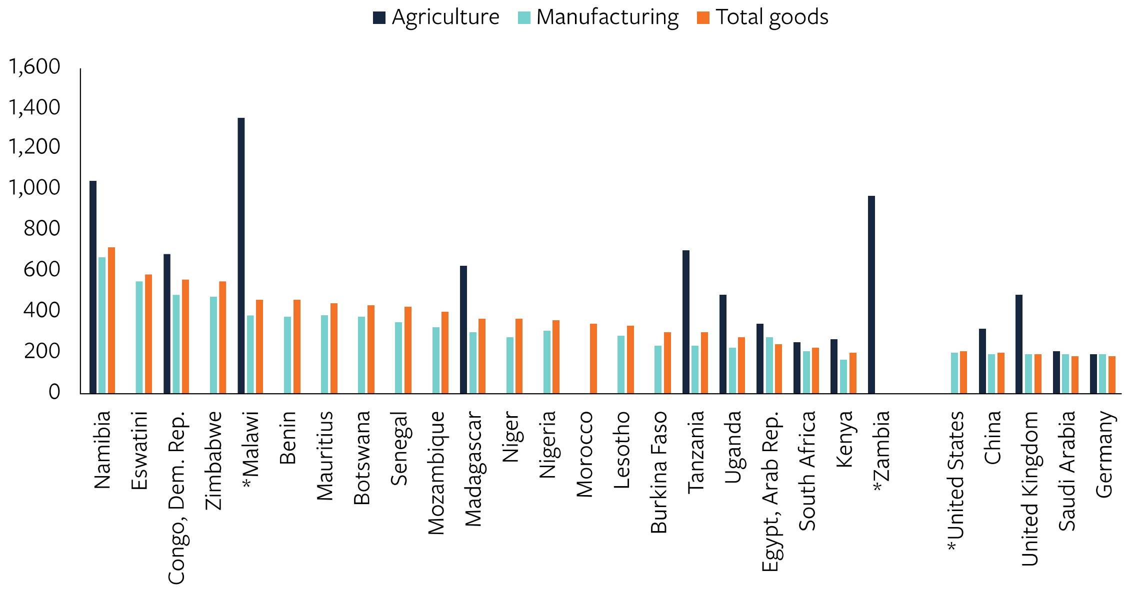
Note: AHS refers to tariff year 2021, weighted by trade as of 2020.
Source: WITS database.

Figure 9 shows ad valorem equivalent[20] trade costs with selected African countries and external trading partners as of 2020. The trade costs incorporate not only transport costs and tariffs but also other trade costs, including direct and indirect costs associated with differences in languages, currencies and cumbersome import or export procedures.[21] Based on this measure, trading with Namibia is nine times more expensive than trading within Ethiopia's borders (and vice versa). Figure 9 also suggests that, except for with Kenya, bilateral trading costs between Ethiopia and

[18] Ethiopia, Madagascar, Malawi, Sudan, Zambia and Zimbabwe.
[19] Authors' computations based on data from UNCTAD (2022a).
[20] Percentage of the estimated value of the goods.
[21] It should be noted that the measure is an average for all traded goods, some of which may not be traded (or traded very little) in practice owing to prohibitively high trade costs. This measure, developed by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the World Bank in 2017, includes all costs involved in trading goods internationally with another partner (i.e. bilaterally) relative to those involved in trading goods domestically.

African countries are greater than those with countries outside the region (e.g. the US, China, the UK, Saudi Arabi and Germany), presenting both a challenge and an opportunity with regard to increasing Ethiopia's intra-continental trade.

Figure 9 Bilateral ad valorem trade costs between Ethiopia and respective partners, 2021 (%)



Note: *Data for Malawi and the US as of 2019; only an estimate for agricultural trade is available for Zambia.
Source: World Bank database.

3.2 Status of Ethiopia's AfCFTA implementation

The Homegrown Economic Reform, which commenced in 2018, aims to liberalise the Ethiopian economy and open it to foreign firms, and speed up the drive to access WTO membership. As a result, in 2020, the country passed a new investment proclamation and regulation. Among others, the new investment law's three main features are liberalisation of the investment filed for foreign investment; a negative list approach to investment, entailing an exhaustive list of investment areas in which foreign investors may not take part, with the rest open for foreign investment; and the handling of investors' grievance and the settlement of investment disputes (Hagos, 2022).

It is against this backdrop that Ethiopia has ratified the AfCFTA. Ethiopia, as a host of the African Union (AU), strongly supports continental integration, including through the AfCFTA (PDC, 2021). The Ethiopian government deposited its instrument of ratification to the AU Commission on 10 April 2019. As of February 2023, 54 out of the 55 African countries (except Eritrea) had signed the AfCFTA and 46 countries had deposited their instruments of ratification to the AU Commission (Tralac, 2023).

Countries ratifying the agreement can trade with each other based on their tariff concessions and rules of origin. As of January 2022, 87.7% of tariff lines had been agreed, with tariff lines pending in textiles, automotive, sugar and tobacco (AU, 2022a). Negotiations are ongoing, in which 46 countries had submitted their provisional schedules of tariff concessions as of February 2023 (AU, 2023).

The Ethiopian government recognises the role of the AfCFTA, together with other bilateral and multilateral agreements, as channels to boost the country's trade and investment (PDC, 2021). The AfCFTA and its Investment Protocol offer market and investment opportunities for Ethiopian businesses, serve as agencies of restraint that force a country to follow its commitments and provide an opportunity to strengthen existing institutions or create new institutions, as well as further incentives to shape investment policy generally (Geda et al., 2022). Acknowledging the role of the logistics sector in international trade in Ethiopia's landlocked context, the country's 10-year development plan has embarked on logistics sector reform to enhance competitiveness and efficiency, digitalise logistics and related services and enhance coordination across sector actors (ibid.). Ethiopia also aims to develop cross-country infrastructure and ports with neighbouring countries, as well as to promote the mobility of skilled workers to maximise benefits from integration at regional and continental levels (ibid.).

Ethiopia participated in the ceremonial trade activity on the date of coming into effect of the agreement on 1 January 2021 by transporting trophies to various African countries under the AfCFTA, via the partnership between Ethiopian Airlines–DHL and the African Electronic Trade Group (AETG, 2021). Private sector actors are largely supportive of joining the AfCFTA as well as the WTO, as they perceive that participation in these agreements will also help enhance security and political stability in the country.[22] Despite this, Ethiopia's engagement in the AfCFTA negotiations has been limited to observation, since Ethiopia has not yet submitted its offer for goods and commitments for services (Bogale, 2022).

In June 2022, the Ministry of Trade and Regional Integration (MTRI) stated that it had already identified Ethiopia's tariff offer for goods, but the Prime Minister's Economic Committee is yet to review (e.g. in terms of implications for custom revenues) and approve the offer list (Endale, 2022b). The Ministry for Planning and Development (MPD) has expressed concerns that, if the government decides to delay its goods offers owing to any impact on custom revenues, Ethiopia should at least submit the country's services offers to participate in the AfCFTA negotiations (Bogale, 2022). Meanwhile, the MTRI has asked Ethiopia's national negotiation committee to liberalise capital accounts, since current protectionist policy is hindering the MTRI Technical Committee from negotiating any services export products for the AfCFTA (Endale, 2022b). A national AfCFTA strategy for Ethiopia was reportedly validated by stakeholders in November 2021 (ICPALD, 2021) but there is limited information on its finalisation for implementation as of date.

At the level of regional communities (of which Ethiopia is a member), COMESA established a partnership framework with the AfCFTA Secretariat in April 2021 to support AfCFTA implementation (Gakunga, 2021). COMESA has been helping with the conclusion of outstanding matters to support the operationalisation of the AfCFTA, such as the framework agreement on the division of labour and roles between the AfCFTA Secretariat and the AUC on the one hand and the Regional Economic Communities (RECs) and Member States on the other hand (COMESA, 2022a). The Intergovernmental Authority on Development,[23] (IGAD) which pursues regional cooperation and development (non-FTA), has launched its Regional Trade Policy 2022–2026; this is aligned with the AfCFTA (IGAD, 2022). Both COMESA and IGAD have been conducting several preparatory activities aligned with the AfCFTA, covering training for standards compliance, developing infrastructure plans and supporting small businesses and women entrepreneurs (see COMESA, 2022b; 2022c; IGAD, 2018; 2020a; 2020b). However, Ethiopia is not yet a participant in the COMESA FTA nor, consequently, in the ongoing but slow progress of negotiations of the COMESA–EAC–SADC TFTA. This significantly limits Ethiopia's institutional experience and capacity in drafting tariff offers, negotiations and implementation of the AfCFTA.

[22] Author interview with an Ethiopian government official in May 2022.
[23] IGAD has eight members: Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan and Uganda.

At the continental level, the AfCFTA Secretariat Guided Trade Initiative (GTI) among eight countries[24] (not including Ethiopia) was announced during the Ninth Meeting of the AfCFTA Ministers of Councils in July 2022, and took effect in October 2022. In the absence of meaningful trade under the agreement after more than one year since the AfCFTA's commencement, the GTI aims to (i) allow commercially meaningful trading under the AfCFTA; (ii) test the operational, institutional, legal and trade policy environment under the AfCFTA; and (iii) send an important positive message to African economic operators (AU, 2022b). The products earmarked for trade under the GTI include ceramic tiles, batteries, tea, coffee, processed meat products, corn starch, sugar, pasta, glucose syrup, dried fruits and sisal fibre, among others, aligned with the AfCFTA focus on value chain development (AU, 2022c). While the GTI needs to cover more products and countries, this is nonetheless a positive step in generating longstanding business relations, especially among countries in the continent with weaker trade links (Mendez-Parra, 2022). However, Ethiopia is not among the countries participating in the initiative.

In November 2022, the AfCFTA Council of Ministers in charge of Trade adopted the AfCFTA protocols on investment, competition and intellectual property rights (IPR) (GMI, 2022). Based on ODI interviews, it is understood that the AU Heads of State noted these protocols in November 2022, and, pending a legal review, they are expected to be formally adopted in February 2023. The next phase of negotiations will cover digital trade (including e-commerce) and plans for a protocol on women and youth in trade (see te Velde, 2022). Compared with other African countries, which lack legislation in these areas, Ethiopia has competition legislation and a dedicated competition authority (Dawar and Lipimile, 2020). The country also has existing laws that govern specific elements of IP, including for inventions, minor inventions and industrial designs; copyright and neighbouring rights; trademarks; plant variety protection; genetic resources, community knowledge and community rights; and unfair competition law (Getachew, 2019). Ethiopia also recently modernised its Investment Regulation (No. 474/2020) and Commercial Code (No. 1243/2021) and put in place a Proclamation for Electronic Transactions (No. 1205/2020), and is reported to be preparing a draft e-commerce law (ITA, 2021). The next phase of AfCFTA negotiations, on the Investment Protocol for instance, offers Ethiopia the opportunity to synchronise various disparities regarding bilateral investment treaties (BITs),[25] investment laws and dispute settlement issues.

Ethiopia is a laggard compared with the other 44 African countries that have already submitted tariff offers for the AfCFTA. In large part, this slow progress owes to the nascent stage of Ethiopia's international trade and investment, which limits its exposure to the full processes of FTA negotiation, domestication (e.g. domestic ratification) and implementation (e.g. multi-agency coordination). To enable smooth implementation of the AfCFTA, Ethiopia would benefit from expediting the finalisation and implementation of its national AfCFTA strategy; identifying and providing the support needed by the national committee to expedite approval of Ethiopia's offers for AfCFTA negotiations; undertaking a gap analysis to compare and synchronise commitments to AfCFTA provisions, planned participation in regional FTAs and domestic legislation and regulations; and improving capacity-building of implementing agencies.

[24] Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania and Tunisia.
[25] Ethiopia has signed 35 BITs, some of which are new and some of which are very old (UNCTAD, 2022c).

4 Opportunities and challenges for Ethiopia’s trade and investment

Based on the analysis in the previous sections of Ethiopia’s macroeconomic performance, trade and investment landscape, and AfCFTA implementation, Table 4 summarises Ethiopia’s strengths, weaknesses, opportunities and risks for key stakeholders (e.g. policy-makers, traders/investors, international donors) to consider for Ethiopia to make the most out of trade, investment and the AfCFTA.

Table 4 Ethiopia’s strengths, weaknesses, opportunities and risks

Strengths	• large and growing domestic market • strong and fast GDP growth accompanied by poverty reduction in the past decade, prior shocks from intensified conflict in Tigray, Covid-19 and Russia–Ukraine war • continued flow of FDI despite overlapping shocks • low labour and energy costs • clear government vision and targets for economic transformation • existing legislation and policies on competition, investment, IP and digital transactions, relevant for the next phase of AfCFTA negotiations
Weaknesses	• fragile internal conflict situation in Tigray region, which has disrupted production, trade (with AGOA sanctions) and investment activities, contributing to increased pressure on public expenditures and acute shortages of foreign exchange • credit rating downgrades in view of deteriorating public debt and application for debt treatment under the G20 Common Framework • high inflationary environment (30.7% as of September 2022) • relatively poor performance in terms of trade logistics and digital readiness compared with other countries in Africa • firm constraints related to difficulties in accessing electricity, finance and foreign currency, and high levels of labour turnover • inconsistent interpretation of policies and regulations in and between institutions • nascent stage of opening to trade and investment (e.g. not yet part of WTO and COMESA FTA, and yet to trade under AfCFTA)
Opportunities	• better-than-expected GDP growth forecast (up to 7.5% vs 5.3%) for FY 2022/23 if the ceasefire announced in November 2022 is sustained • strategic geographical location with proximity to the Middle East, Europe and Asia and membership of regional communities in Africa • existing preferential access to major markets such as the EU and the US (but AGOA is currently suspended pending conflict resolution) • recently modernised commercial and investment laws • intervention to boost Ethiopia’s agricultural, manufactured and mineral exports to maximise regional, continental and global integration, following the government’s resumption of WTO accession negotiations, AfCFTA ratification and commitment to join the COMESA FTA. These exports may include food preparations, flowers, fresh or processed vegetables, coffee and semi-manufactured gold, in view of increasing Ethiopian efficiency in and/or increasing world demand for these products
Threats (risks)	• renewed intensification of conflict in Tigray if the ceasefire announced in November 2022 does not hold, which may result in protracted suspension of AGOA access, and medium- to long-term effects on supply chains and trade structures

	• high risk of public debt distress, which may get worse with protracted debt treatment negotiation • global price volatility from protracted Russia–Ukraine war, adverse weather and locust invasions, which may negatively affect major agricultural/commodity exports • delays in AfCFTA implementation owing to domestic legislative and policy constraints, weak capacity of implementing agencies or preference to trade outside Africa as a result of relatively higher costs of intra-African trade

5 Conclusion

Ethiopia was one of the fastest-growing economies in the world in the decade prior to the Covid-19 pandemic, driven by the shift in government strategy in 2010 from agriculture-led to manufacturing-led growth and supported by significant public infrastructure investment. In recent years, however, Ethiopia has been facing significant and multiple shocks as a result of both domestic and external developments, including intensification of the conflict in northern Tigray, adverse weather conditions, the pandemic, spillovers of the Russia–Ukraine war and the global financial tightening – all of which are negatively affecting Ethiopia's macro-financial stability as well as its growth and development trajectory.

There is huge potential for trade and investment to contribute to Ethiopia's economic transformation goals but there are serious bottlenecks to overcome. The general business and investment climate is characterised by poor logistics infrastructure, difficult access to finance (and foreign exchange) and electricity, a low level of digital readiness, and lack of coordination and inconsistent policy implementation. These persistent challenges are being exacerbated by the conflict in northern Ethiopia, which has already disrupted business operations and created uncertainty. For instance, the conflict-induced AGOA suspension has resulted in some business closures and layoffs in affected regions. A ceasefire has been in place since November 2022 but the security situation remains fragile; in the event of conflict escalation, Ethiopia could face a decline in GDP by 5%.

Against this backdrop, Ethiopia is also not yet fully benefiting from global, continental and regional trade agreements. Trade contributes only around a quarter of GDP (vs 50% of GDP in sub-Saharan Africa). Ethiopia is still negotiating access to the WTO, is not yet a participant in the COMESA FTA and is yet to submit its offer to the AfCFTA. Ethiopia's limited exposure to the full processes of drafting FTA offers, negotiations, domestication (e.g. ratification of international commitments to domestic laws) and implementation implies significant capacity needs (e.g. for institutions, firms) that must be addressed before the country can participate meaningfully in the AfCFTA. For instance, the tariff offers for submission to the AfCFTA are pending approval by the national government, as decision-makers want to assess the fiscal implications (e.g. potential revenue losses from tariff reductions). The international community (e.g. RECs, international organisations and donors) could provide targeted capacity support to Ethiopian policy-makers to help them expedite their participation in the AfCFTA negotiations and craft and implement a national AfCFTA strategy.

References

Addis Fortune (2022) ‘Hawassa Park layoffs intensify following PVH departure, AGO Debarment’. (https://addisfortune.news/hawassa-park-layoffs-intensify-following-pvh-departure-agoa-debarment/).

AETG – African Electronic Trade Group (2021) ‘Ethiopian-DHL, AE trade group partner to transport historical parcels under AfCFTA’. Press Release, 5 January (www.aetradegroup.com/post/ethiopian-dhl-aetrade-group-partner-to-transport-historical-parcels-under-afcfta).

AfCFTA Secretariat (2022) ‘Creating one market’ (https://au-afcfta.org/?jet_download=11130).

AP – Associated Press (2022) ‘Ethiopia’s economy struggles as war reignites in Tigray’. 13 September (https://apnews.com/article/africa-economy-government-spending-kenya-826141a7a692574d9609462d2549bffb).

Arvis, J., Duval, Y., Shepherd, B. and Utoktham, C. (2012) ‘Trade costs in the developing world: 1995–2010’. ARTNeT Working Paper Series 121. Asia-Pacific Research and Training Network on Trade (www.unescap.org/sites/default/files/AWP%20No.%20121.pdf).

AU – African Union (2020) *State parties: ratification status list*. African Union Report (https://afcfta.au.int/en/documents/2020-12-28/state-parties-ratification-status-list).

AU (2022a) ‘Opening statement by His Excellency Wamkele Mene, Secretary-General, AfCFTA Secretariat at the Second Ministerial Retreat on the AfCFTA Rules of Origin’. 28 January (https://au-afcfta.org/wp-content/uploads/2022/02/EN-Ministerial-Retreat-Statement-HE-Wamkele-Mene-v3-3.pdf).

AU (2022b) ‘The AfCFTA Guided Trade Initiative'. AfCFTA Updates (https://au-afcfta.org/2022/09/the-afcfta-guided-trade-initiative/).

AU (2022c) ‘What is the AfCFTA Guided Trade Initiative all about?’ (https://au-afcfta.org/2022/10/what-is-the-afcfta-guided-trade-initiative-all-about/).

AU (2023) ‘AU Summit 2023: Powering trade through AfCFTA’ Africa Renewal, 17 February (https://www.un.org/africarenewal/magazine/february-2023/au-summit-2023-powering-trade-through-afcfta)

Ayele, Y., Raga, S. and te Velde, D.W. (forthcoming) ‘Ethiopia’s macroeconomic and financial stability in the context of conflict in Tigray: an update’. December. Unpublished ODI report prepared for GIZ.

Berhe, H. (2019) ‘Ethiopian sesame seed supply scenario’. Presentation at the 9th International Conference on Pulses and Oilseeds, 29–30 November.

Bogale, S. (2022) 'Ethiopia’s bargaining power in AfCFTA deteriorates as gov’t delays offers’. The Reporter, 11 June (www.thereporterethiopia.com/24205/).

Borkena (2022) ‘Ethiopia’s cost for reconstruction of war-torn areas $20 billion’. 9 November (https://borkena.com/2022/11/09/reconstruction-ethiopias-cost-for-reconstruction-of-war-torn-areas-20-billion/).

Burke, J. (2022) ‘Ethiopian civil war: parties agree on end to hostilities’ 2 November. The Guardian. (https://www.theguardian.com/world/2022/nov/02/ethiopian-civil-war-parties-agree-truce-to-end-hostilities)

CARI – China–Africa Research Initiative (2022) ‘Data: Chinese Investment in Africa’. John Hopkins University (accessed November) (www.sais-cari.org/chinese-investment-in-africa).

COMESA – Common Market for Eastern and Southern Africa (2022a) *Annual report 2021* (https://www.comesa.int/wp-content/uploads/2023/02/COMESA-Annual-Report-_final-final_upload.pdf).

COMESA (2022b) ‘COMESA, in partnership with ITC, spearheads SMEs’ participation in the AfCFTA through market analysis capacity building‘ (www.comesa.int/comesa-in-partnership-with-itc-spearheads-smes-participaction-in-the-afcfta-t-hrough-market-analysis-capacity-building/).

COMESA (2022c) ‘Businesswomen brace for a stake in AfCFTA opportunities’ (www.comesa.int/businesswomen-brace-for-a-stake-in-afcfta-opportunities/).

Dawar, K. and Lipimile, G. (2020) ‘Africa: harmonising competition policy under the AfCFTA’. Concurrences Review 2. a93472 242-250. ISSN 1773-9578.

ENA – Ethiopian News Agency (2022a) ‘Ethiopia attracts 3 billion USD FDI in fiscal year’. 6 July (www.ena.et/en/?p=36992).

ENA (2022b) ‘Council of Ministers approves establishment of national special economic zones’. 13 August (www.ena.et/en/?p=37778).

Endale, A. (2022a) ‘Foreign banks granted same entry capital as local banks’. The Reporter, 29 October (www.thereporterethiopia.com/27476/#).

Endale, A. (2022b) ‘Ministry requests for capital account liberalization’. The Reporter, 18 June (www.thereporterethiopia.com/24409/).

Endale, A. (2022c) ‘Hong Kong fashion giant to exit Bahir Dar Industrial Park’. The Reporter, 12 November
(www.thereporterethiopia.com/27845/).

Ergano, D. and Rambabu, K. (2020) ‘Ethiopia’s FDI inflow from India and China: analysis of trends and determinants’ *Journal of Economic Structures* 9(35).

Ethiopian Embassy in Belgium (2021) ‘Ethiopia at a glance’. Webpage (accessed December) (https://ethiopianembassy.be/ethiopia/country-profile/).

Ethiopian Embassy in London (2017) ‘An investment guide to Ethiopia‘ (www.ethioembassy.org.uk/trade-investment/).

Ethiopia Monitor (2022a) ‘MPs approve 786.6 billion birr budget for next Ethiopian FY’. 7 July (https://ethiopianmonitor.com/2022/07/07/mps-approve-786-6-billion-birr-budget-for-next-ethiopian-fy/).

Ethiopia Monitor (2022b) ‘Investors invited to submit interest as govt pushes to privatize sugar plants’. 19 August (https://ethiopianmonitor.com/2022/08/19/ethiopia-invites-investors-to-submit-interest-for-state-owned-sugar-plants/).

G20 (2022) ‘Indonesia Presidency welcomes the Statement of the Creditor Committee for Ethiopia’. Mirage News, 24 August
(www.miragenews.com/indonesia-presidency-welcomes-statement-of-842105/) .

Gakunga, M. (2021) ‘AfCFTA, COMESA to establish cooperation framework’. News, 13 April (www.comesa.int/52391/).

Gebre, B. (2022) ‘Epic Apparel lays off hundreds at Hawassa Industrial Park’. (https://addisfortune.news/epic-apparel-lays-off-hundreds-at-hawassa-industrial-park/).

Geda, A., Legesse, G., Ayele, Y. and Belete, M. (2022) ‘Ethiopia and investment provisions in the AfCFTA: issues and challenges’. Policy Brief. London: ODI
(https://cdn.odi.org/media/documents/Policy_brief_Ethiopia_AfCFTA_Investment_Protocol_UTIziH1.pdf).

Gebre, S. and Tadesse, F. (2021) ‘US blocks duty-free trade access to Ethiopia over conflict’. Bloomberg News, 2 November (www.bloomberg.com/news/articles/2021-11-02/u-s-suspends-duty-free-trade-access-to-ethiopia-over-conflict).

Getachew, R.S. (2019) ‘Arbitration of intellectual property disputes in Ethiopia: exploring the legal and institutional gaps’. *WIPO-WTO Colloquium Papers*, Volume 10
(www.wto.org/english/tratop_e/trips_e/colloquium_papers_e/2019/chapter_5_2019_e.pdf).

GMI – Gabon Mail Info (2022) ‘ZLECAF : les trois protocoles de divergence de la 10e réunion du Conseil des ministres du Commerce enfin adoptés à Libreville’. 28 October (https://gabonmailinfos.com/zlecaf-les-trois-protocoles-de-divergence-de-la-10e-reunion-du-conseil-des-ministres-du-commerce-enfin-adoptes-a-libreville/).

Hagos, A.B. (2022) 'Major features of Ethiopia's new investment law: an appraisal of their policy implications' *Transnational Corporations Journal* 29(1).

Haile, G. (2018) 'Industrial development in Ethiopia. Industrialisation: towards a development agenda for structural transformation'. Presentation at WTO Aid for Trade workshop, 5 November (www.wto.org/english/tratop_e/devel_e/a4t_e/a4tworkshop51118_e.htm).

Hartzenberg, T. (2023) , The African Continental Free Trade Area Agreement - what is expected of LDCs in terms of trade liberalisation?' UN website accessed in February 2023. (https://www.un.org/ldcportal/content/african-continental-free-trade-area-agreement-what-expected-ldcs-terms-trade-liberalisation)

ICPALD – Inter-Governmental Authority on Development (IGAD) Centre for Pastoral Areas and Livestock Development (2021) 'Draft national AfCFTA implementation strategy for Ethiopia reviewed and validated by stakeholders'. Press Release (https://icpald.org/draft-national-afcfta-review/).

IGAD – Inter-Governmental Authority on Development (2018) 'IGAD signs contract for the development of regional infrastructure master plan' (https://igad.int/divisions/economic-cooperation-and-social-development/1808-igad-signs-contract-for-the-development-of-regional-infrastructure-master-plan).

IGAD (2020a) 'The progress of implementation of national SPS strategy and action plan in IGAD Member states reviewed and monitored to enhance performance' (https://igad.int/programs/95-icpald/2388-the-progress-of-implementation-of-national-sps-strategy-and-action-plan-in-igad-member-states-reviewed-and-monitored-to-enhance-performance).

IGAD (2020b) 'IGAD/ICPALD undertook regional virtual meeting on Africa Continental Free Trade Area (AfCFTA) agreement to help member states optimize benefits from livestock products' (https://igad.int/programs/95-icpald/2576-igad-icpald-undertook-regional-virtual-meeting-on-africa-continental-free-trade-area-afcfta-agreement-to-help-member-states-optimize-benefits-from-livestock-products-18thnovember-2020).

IGAD (2022) 'IGAD launches its Regional Trade Policy 2022-2026'. Webpage (https://igad.int/igad-launches-its-regional-trade-policy-2022-2026/).

IFC – International Finance Corporation (2019) 'Creating markets in Ethiopia: sustaining progress towards industrialization. Country private sector diagnostic'. Washington DC: IFC (https://openknowledge.worldbank.org/handle/10986/32403).

IMF – International Monetary Fund (2019) 'Six things to know about Ethiopia's new program'. IMF Country Focus (www.imf.org/en/News/Articles/2019/12/23/na122319-six-things-to-know-about-ethiopias-new-program).

IMF (2021a) 'IMF reaches a staff-level agreement for the first and second reviews of the Extended Credit Facility and Extended Fund Facility for Ethiopia'. Press Release 21/46. Washington DC: IMF.

IMF (2021b) 'Fiscal monitor: database of country fiscal measures in response to the COVID-19 pandemic'. IMF website (accessed October).

IMF (2022) 'IMF staff visit discusses reform plans and economic developments in Ethiopia'. Press Release 22/216 (www.imf.org/en/News/Articles/2022/06/21/pr22216-ethiopia-imf-staff-visit-discusses-reform-plans-and-economic-developments-in-ethiopia).

ITA – International Trade Administration (2021) 'Ethiopia – country commercial guide' (www.trade.gov/country-commercial-guides/ethiopia-ecommerce).

Italo, A. (2022) 'Making ends meet despite AGOA delisting' (https://addisfortune.news/making-ends-meet-despite-agoa-delisting/).

Kazunga, O. (2022) 'Trade blocs to bolster intra-African trade, says Comesa'. The Herald, 16 November (www.herald.co.zw/trade-blocs-to-bolster-intra-africa-trade-says-comesa/).

Lloyd, J. and Teshome, B. (2018) *Foreign exchange allocation and access for businesses in Ethiopia* (redacted version). Business Environment Reform Facility (https://assets.publishing.service.gov.uk/media/5c90aa9240f0b633fc95f6d4/BERF_Ethiopia_Foreign_Exchange_for_Businesses_.pdf).

Lu, S. (2022) *2022 fashion industry benchmarking study*. (www.usfashionindustry.com/pdf_files/2022/Benchmarking/2022%20USFIA%20Benchmarking%20Study.pdf).

Marks, S. (2021) 'War-wracked Ethiopia tightens money supply as inflation tops 30%'. Bloomberg, 3 March (www.bloomberg.com/news/articles/2021-09-03/ethiopian-central-bank-expects-new-rules-to-help-ease-inflation).

Mendez-Parra, M. (2022) 'The AfCFTA marks a milestone in its implementation' ODI blog, 7 October (https://odi.org/en/insights/the-afcfta-marks-a-milestone-in-its-implementation/).

MFA – Ministry of Foreign Affairs (2021) 'State Minister Ambassador Redwan Hussien and General Bacha Debele briefed media on unilateral ceasefire in Tigray on 30 June 2021'. MFA's official Twitter account, 30 June (https://twitter.com/mfaethiopia/status/1410213036015620108).

MoF – Ministry of Finance (formerly known as Ministry of Finance and Economic Development) (2010) *Growth and transformation plan 2010/11–2014/15.* Addis Ababa: MoF (www.greengrowthknowledge.org/sites/default/files/downloads/policy-database/ETHIOPIA%29%20Growth%20and%20Transformation%20Plan%20I%2C%20Vol%20I.%20%282010%2C11-2014%2C15%29.pdf).

MoF (2022a) 'Annual public sector debt portfolio analysis for the year 2020/21'. Addis Ababa: MoF.

MoF (2022b) 'Public sector debt statistical bulletin (2020/21)'. Addis Ababa: MoF.

Naumann, E. (2021) 'AGOA and Ethiopia'. AGOA.info, Trade Law Centre (https://agoa.info/images/documents/15558/ethiopiacountrybrochureagoafinal.pdf).

NBE – National Bank of Ethiopia (2017) *Annual report 2016/2017.* Addis Ababa: NBE (https://nbebank.com/wp-content/uploads/pdf/annualbulletin/NBE%20Annual%20report%202016-2017/NBE%20Annual%20Report%202016-2017.pdf).

NBE (2018) *Annual report 2017/18.* Addis Ababa: NBE (https://nbebank.com/wp-content/uploads/pdf/annualbulletin/Annual%20Report%202017-2018/Annual-report-2017-2018.pdf).

NBE (2019) *Annual report 2018/19.* Addis Ababa: NBE (https://nbebank.com/wp-content/uploads/pdf/annualbulletin/report-2018-2019.pdf).

NBE (2020) *Annual report 2019/20.* Addis Ababa: NBE (https://nbebank.com/wp-content/uploads/pdf/annualbulletin/Annual%20Report%202019-2020.pdf).

NBE (2021a) 'Quarterly bulletin third quarter 2020/21 fiscal year series' 3(37) (https://nbebank.com/wp-content/uploads/pdf/quartelybulletin/2020-21-%20third-quarter%20final-new.pdf).

NBE (2021b) 'Quarterly bulletin fourth quarter 2020/21 fiscal year series' 4(37) (https://nbebank.com/wp-content/uploads/pdf/quartelybulletin/vol36-quarter%204.pdf).

NBE (2021c) *Annual report 2020/21.* Addis Ababa: NBE (https://nbebank.com/wp-content/uploads/pdf/annualbulletin/Annual%20Report%202020-2021/2020-21%20Annual%20Report.pdf).

NBE (2022) 'Quarterly bulletin fourth quarter 2021/22' (https://nbebank.com/wp-content/uploads/2022/11/Fourth%20Quarter%20Report%202021-22.pdf).

Portulans Institute (2022) 'Network Readiness Index 2022' (https://networkreadinessindex.org/).

PDC – Planning and Development Commission (2021) *Ten years development plan: a pathway to prosperity 2021–2030.* Addis Ababa: PDC.

PDG – Perfect Daily Grind (2022) 'Civil war in Ethiopia: How is the situation affecting the coffee sector?' 10 March (https://perfectdailygrind.com/2022/03/civil-war-ethiopia-coffee-sector/).

Reuters (2021a) 'EU suspends Ethiopian budget support over Tigray crisis'. 15 January (www.reuters.com/article/us-ethiopia-conflict-eu-idUSKBN29K1SS).

Reuters (2021b) 'Fashion giant PVH to close factory; Ethiopia blames U.S. sanctions'. 19 November (www.reuters.com/article/ethiopia-conflict-trade-idUSKBN2I420Y).

Rosario, J. and Savage, R. (2022) 'Exclusive: Ethiopia debt relief delay partly due to civil war, state finance minister says'. 15 October (www.reuters.com/world/africa/exclusive-ethiopia-debt-relief-delay-partly-due-civil-war-state-finmin-2022-10-15/).

Schipani, A. (2022) 'Ethiopia launches fund to lure billions of dollars in foreign investment'. Financial Times, 27 February (www.ft.com/content/2c02152c-5b70-4dd0-b191-fd8670d197c2).

Seleshie, L. (2022) 'Can Ethiopia's textile industry weave its way back to its former glory?' The Africa Report, 22 July (www.theafricareport.com/222138/can-ethiopias-textile-industry-weave-its-way-back-to-its-former-glory/).

Tamiru, S. and Gebrewolde, T.M. (2022) 'Impact of the Russia-Ukraine war on Ethiopia'. IGC blog, 8 August (www.theigc.org/blog/impact-of-the-russia-ukraine-war-on-ethiopia/).

Taye, D. (2022) 'The economic benefit of the peace agreement reached between the government and the TPLF' (original article in Amharic). The Ethiopian Reporter, 16 November (www.ethiopianreporter.com/112867/).

TI – Transparency International (2022) *Corruption Perceptions Index 2021* (https://www.transparency.org/en/cpi/2021).

Te Velde, D.W. (2022) 'Promoting investment for Africa's industrialisation through economic integration'. ODI blog, 18 November (https://odi.org/en/insights/promoting-investment-for-africas-industrialisation-through-economic-integration).

Tralac – Trade Law Centre (2023) 'AfCFTA Ratification Barometer' 20 February (https://www.tralac.org/documents/resources/infographics/2605-status-of-afcfta-ratification/file.html)

UNCTAD – United Nations Conference on Trade and Development (2019) *World investment report 2019. Special Economic Zones.* Geneva: UNCTAD (https://unctad.org/webflyer/world-investment-report-2019).

UNCTAD (2020a) *World investment report 2019. International production beyond the pandemic.* Geneva: UNCTAD (https://unctad.org/system/files/official-document/wir2020_en.pdf).

UNCTAD (2020b) 'Adoption of new investment liberalisation measures'. Investment Policy Hub (https://investmentpolicy.unctad.org/investment-policy-monitor/measures/3559/adoption-of-new-investment-liberalisation-measures-).

UNCTAD (2021) *World investment report 2021. Investing in sustainable recovery.* Geneva: UNCTAD (https://unctad.org/system/files/official-document/wir2021_en.pdf).

UNCTAD (2022a) 'UNCTADStat'. Trade and foreign direct investment data (accessed between October and November) (https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx).

UNCTAD (2022b) 'Ethiopia: adopts new investment incentives'. Investment Policy Hub, 12 July (https://investmentpolicy.unctad.org/investment-policy-monitor/measures/4003/ethiopia-adopts-new-investment-incentives).

UNCTAD (2022c) 'Bilateral investment treaties (BITs)' (https://investmentpolicy.unctad.org/international-investment-agreements/countries/67/ethiopia).

UNDP – United Nations Development Programme (2022) 'Ethiopia'. Human Development Reports database (accessed 20 October) (https://hdr.undp.org/data-center/specific-country-data#/countries/ETH).

UNESCAP – United Nations Economic and Social Commission for Asia and the Pacific – and World Bank (2017) 'ESCAP-WB Trade Cost Database: explanatory note for users' (www.unescap.org/sites/default/d8files/Trade%20Cost%20Database%20-%20User%20note.pdf).

UNICEF – United Nations Children's Fund (2022) 'Highlights of the 2021/22 Federal Government Budget Proclamation'. Addis Ababa: UNICEF (www.unicef.org/ethiopia/media/5006/file/screenshot%20of%20the%20Highlights%20federal%20budget%20proclamation%20document.pdf).

UNIS – UN Information Services (2020) 'Ethiopia accedes to Convention on the Recognition and Enforcement of Foreign Arbitral Awards'. UNIS/L/301, 26 August (https://unis.unvienna.org/unis/en/pressrels/2020/unisl301.html).

USDoS – United States Department of State (2021) '2021 investment climate statements: Ethiopia' (www.state.gov/reports/2021-investment-climate-statements/ethiopia/).

USTR – Office of the United States Trade Representative (2021) *2021 national trade estimate report on foreign trade barriers*. Washington DC: USTR (https://ustr.gov/sites/default/files/files/reports/2021/2021NTE.pdf).

USTR (2022) 'U.S. terminates AGOA Trade Preference Program for Ethiopia, Mali and Guinea'. Press Release, 1 January (https://ustr.gov/about-us/policy-offices/press-office/press-releases/2022/january/us-terminates-agoa-trade-preference-program-ethiopia-mali-and-guinea).

Whitehouse, D. (2022) 'Ethiopia's first new gold mine of the century nears start of production' 2 November. The Africa Report. (https://www.theafricareport.com/254037/ethiopias-first-new-gold-mine-of-the-century-nears-start-of-production/)

World Bank (2020a) 'Ethiopia sustains reforms to spur growth and boost investment climate and the finance sector'. Press Release 2020/076/AFR, 19 March (www.worldbank.org/en/news/press-release/2020/03/19/ethiopia-sustains-reforms-to-spur-growth-and-boost-investment-climate-and-the-finance-sector).

World Bank (2020b) *Doing business 2020*. Washington DC: World Bank (https://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf).

World Bank (2022a) 'The World Bank in Ethiopia: overview'. Webpage (accessed 6 October) (www.worldbank.org/en/country/ethiopia/overview).

World Bank (2022b) 'Ethiopia macro-poverty outlook'. October (https://thedocs.worldbank.org/en/doc/bae48ff2fefc5a869546775b3f010735-0500062021/related/mpo-eth.pdf).

World Bank (2022c) *On the path to industrialization: a review of industrial parks in Ethiopia*. Policy Report. Washington DC: World Bank (https://documents1.worldbank.org/curated/en/099350011132228872/pdf/P1741950a12ef10560af5008750d1393b7c.pdf).

World Bank (2022d) 'World Development Indicators'. Electronic dataset (accessed between October and December 2022) (https://data.worldbank.org/).

World Bank and IMF – International Monetary Fund (2020) 'World Bank-IMF debt sustainability analysis'. Washington DC: World Bank Group (http://documents.worldbank.org/curated/en/589301593446701627/Ethiopia-Joint-World-Bank-IMF-Debt-Sustainability-Analysis).

WTO – World Trade Organization (2020) 'Ethiopia resumes WTO accession negotiations after eight-year pause'. WTO News, 31 January (www.wto.org/english/news_e/news20_e/acc_eth_31jan20_e.htm).

WTO (2021) 'LDCs accession'. WTO Accessions Newsletter, Issue 14, March (https://mailchi.mp/wto/wto-accessions-newsletter-n-104-march-2021?e=9c067e1dee#ETH).

Xinhua (2022a) 'Ethiopian Airlines' revenue up 79 pct in 2021/2022 fiscal year', 9 January (https://english.news.cn/20220901/ccf8418f19244d0ebd8b1d4d5d250a33/c.html#:~:text=1%20(Xinhua)%20%2D%2D%20Ethiopia's%20national,which%20ended%20on%20July%207).

Xinhua (2022b) 'Ethiopia attracts 2.43 bln USD FDI in nine months'. 21 September (https://klse.i3investor.com/web/blog/detail/kianweiaritcles/2022-09-21-story-h1649193943-Ethiopia_reports_more_foreign_direct_investment).

Xinhua (2022c) 'Ethiopia reports more foreign direct investment' (https://klse.i3investor.com/web/blog/detail/kianweiaritcles/2022-09-21-story-h1649193943-Ethiopia_reports_more_foreign_direct_investment).