

Individual Trade Balance in Some Major Agricultural Products: Evidence from Ethiopia

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Abstract

As an agrarian economy it is little to expect for one nation to import more agricultural products than it exports. However, the ever-increasing total trade deficit in Ethiopia comes from both agricultural and industrial sector. The country reported a huge individual trade deficit in some agricultural product where it has potential to narrow the ever increasing aggregate trade deficit. The country had recorded a huge individual trade deficit in some major agricultural products like soya bean, Malt Not Roasted, Spelt, Common Wheat and Meslin, Durum Wheat, Grain Sorghum ,Dried Peas, Shelled And Wheat/Meslin Flour. Import and export values of each agricultural product were used to calculate individual trade deficit. Data were analyzed using descriptive method.

This huge difference could also be reflected through the quantity measure. In both value and volume measures it seems as there is no promising figure to close such difference.

Thus the agricultural sector even is contributing for ever-increasing trade deficit in Ethiopia.

Keywords: Individual Trade Balance, Agricultural Products, Individual Trade Deficit

INTRODUCTION

Ethiopia's export sector is characterized by overdependence on few agricultural products, with very limited exports of manufactured and semi-manufactured goods. The Ethiopian economy is characterized by an unstable export sector, and its exports are concentrated in a small number of primary products. It's export sector has been lagging behind in its contribution to the growth of the economy and, needless to mention, its export earnings have been unstable overtime. Its major export items are agricultural products, with coffee as the major foreign exchange earner (Debel,2002)

It is well known that Ethiopian exports are mainly composed of primary commodities mainly agriculture. Coffee remains the major export commodity with close to 26 percent share in the total exports in 2009/10. Oilseeds follow with 17 percent share. Gold and Chat follow with 14 percent and 10 percent share in total exports respectively. A significant shift is observed in the destination of exports with respect to continents. Europe remains the biggest recipient of Ethiopia's exports with close to 41 percent share in total exports. Asia follows with close to 35 percent share. This shift of export destinations reflects a relative diversification of exports with respect to commodities in favor of south-south trade as the shift is occurring from the relatively developed continents of Europe and Americas to the less developed continents of Africa and Asia. The structure of imports has not changed much in the past 30 years. Since 1980 Capital goods have taken a big portion of the total import payments averaging 34 percent although their share has slightly declined over the periods from 37 percent in the period 1980-1990 to 31 percent during the period 2000-2009. Consumer goods come second and have maintained a relatively steady share in total imports (29.5 percent) while the share of semi-finished goods and fuel has slightly increased through the past three decades. Similar to the case of exports Ethiopia has made a significant shift of import sources over the past three decades from Europe to Asia. This is because of the dramatic increase in imports from China. The biggest decline is that of Europe whose share has dropped from a high of 46 percent of total imports during the period 1989-1999 to 30.5 percent during the period 2000-2008. The share of Africa and America declined by less than 1 percentage point but their share was small in the first place. The share of Asia has increased from 34 percent in the previous decade to 53 percent in the just ended decade (Tewodros , 2012).

A trade deficit is often seen as a bad thing. It suggests we are 'living beyond our means'. It Suggests economy is relatively uncompetitive and unbalanced - encouraging consumption at expense of saving, investment and exports. It can also lead to future devaluation in exchange rate to restore balance. Trade deficit is much bigger problem for countries in Euro, who can't devalue to restore competitiveness. Their loss of competitiveness is leading to lower growth and higher unemployment (Pettinger, 2008)..

However, many economists argue a trade deficit isn't necessarily a bad thing. There is no more evidence to worry about it. Trade deficit may be consequence of rapid growth. A deficit may simply be because the economy is growing quickly. When the economy is growing people will be buying more imports. Therefore, a current account deficit may be a reflection of high growth and falling unemployment, which is a good thing. Japan has had a current account surplus but very sluggish growth in the 1990s. However, a deficit may also indicate the economy is growing too quickly causing domestic inflation and so people buy from abroad to avoid high domestic prices. Trade deficit financed by long term capital flows helps economy with financing investment. If

trade deficit is too large, it will cause depreciation in exchange rate to restore competitiveness and improve trade deficit. Another taking point is there are more pressing economic priorities than trade deficit. But the general thing is a common perception in the media and in the general public that trade deficit is bad news. The conventional wisdom is that these deficits are a drag on gross domestic product. Surely, it must be bad for a country's economy to import more than it exports, right? The difference between a country's imports and exports differs across business cycles and types of economies. For countries where growth is led by exports like oil, industrial goods and other natural resources, the balance of trade will move positively toward a surplus, during an economic expansion. The reason for this is that the host country exports products that are in demand during growth periods at a greater rate than it imports goods. In contrast, in countries where growth is led by demand, like the United States, the trade balance tends to worsen during growth stages of the business cycle. This is because these economies need to import even more goods than usual in order to grow. Regarding with the correlation trade deficit has with GDP; two competing theories are discussed below (Pettinger, 2008).

The first theory is on the belief that Trade deficits drag down GDP and add to the threat of an economic crisis if foreigners dump the local currency in world currency markets. While the other theory is increasing trade deficits can be a sign of strong GDP. They will not create a drag on GDP, and any potential downward pressure on the local currency is actually a benefit to that country. The first theory suggests there will be a general underlying weakness in the economy of the local country during periods of substantial trade deficit. Intuitively, the theory makes sense. If you are buying more than you are selling, it seems logical that this would be bad for the economy - especially in countries where the products to be exported do not create enough jobs to offset the jobs lost by importing goods. This theory may seem to make logical sense, but unfortunately the numbers do not support it. For example, the United States has a massive and growing trade deficit, and so if the first theory held true, we should see that its GDP growth hindered. The opposite is the case however. According to the U.S. Census Bureau, from the early 1990s to 2007, the U.S. continues on a general trend of increasing GDP; the trade deficit is also increasing. If the first theory was true, there would be an inverse relationship between GDP and a trade deficit, but this does not seem to be the case. There are short periods of time in U.S. history where we see reduced GDP in conjunction with an increasing trade deficit, but most of those time periods can be excused as anomalies. The second theory may hold much more weight as evidenced by the positive correlation between the U.S. GDP and the trade deficit. This can be easily explained by the fact that the U.S. is a demand-based consumer society with a negative savings rate. In addition, as the U.S. evolves into more of a service society, the products that individuals demand will no longer be made in the country. As more manufacturing and labor intensive products are created outside of the U.S., a trade imbalance may be inevitable. In fact, the economic growth from 1980-2000 tended to grow in years in where the trade deficit grew compared to those years in which it declined. This provides even more evidence that an imbalance of trade in the form of a deficit did not drag the economy.¹ In reality, thus, the trade deficit may be more pro-cyclical, moving in the same direction as local GDP. In some cases the correlation between trade deficits and GDP to show that sometimes it doesn't pay to follow conventional wisdom.

METHODOLOGY OF THE STUDY

Import and export values of soya bean, Malt Not Roasted, Spelt, Common Wheat and Meslin, Durum Wheat, Grain .Sorghum, Dried Peas, Shelled And Wheat/Meslin Flour were used to calculate individual trade deficit. Data were analyzed using descriptive method.

DATA RESULTS AND DISCUSSION

Individual Trade Balance in Some Major Agricultural Products

Table 1 Soya Bean Export and Import Values (In Birr) (2002-2012)

year	Import	export	deficit/surplus
2002	0	830,955	830,955
2003	313	285151	284,838
2004	3,156,239	25,166,793	22,010,554
2005	9,766,967	0	-9,766,967
2006	14,696,748	20911.62	-14,675,836
2007	698,245	10,434,610	9,736,365
2008	3499993	8,948,772	5,448,779
2009	61164647	2,684,738	-58,479,909
2010	4984886	2,557,494	-2,427,392
2011	17916392	8,274,045	-9,642,347
2012	7200570	47,081,826	39,881,256

Source: CSA

¹ More in the appendix section : table result on correlation between trade deficit and GDP in US

Table 1 table shows the value of import and export in Soya bean for the last 2002-2012 period. The value of import in soya bean showed an increase trend continuously until the period 2006. Over the last 11 year the country registered a higher value of import in 2009 which is amounted to be 61,164,647 birr. While the value of exported reached its maximum in period 2012 with 47,081,826 birr. Regarding with the individual trade deficit /surplus on this particular agricultural products, the country prove the trade surplus only not more than six periods. There were individual trade deficit for five periods 2005, 2006, 2009, 2010, 2011.

Table 2 export and import values (in birr) of Malt not roasted in 2002-2012

Year	import	export	Dificit/surplus
2002	21,557,402	8,087	-21,549,315
2003	24,120,015	220	-24,119,795
2004	28,351,925	0	-28,351,925
2005	52,926,035	0	-52,926,035
2006	127,214,922	0	-127,214,922
2007	215,984,712	12,136	-215,972,576
2008	297,407,833	19,892	-297,387,941
2009	231,024,730	39,157	-230,985,573
2010	297,393,574	67,719	-297,325,855
2011	343,167,118	91,280	-343,075,838
2012	340,324,550	61,612	-340,262,938

Source CSA

Surprisingly table 2 shows trade deficit existed in all periods of discussions, with no promising result for export values to close such a big difference. Not only has an existence of trade deficit but also it showed us an increment during 2002-2008 periods.

Table 3 export and import values (in birr) of Spelt, common wheat and Meslin 2002-2012

Year	import	export	deficit
2002	446,036,803	10,837	-446,025,966
2003	1,495,104,405	24,872	-1,495,079,533
2004	490,720,406	55,646	-490,664,760
2005	323,569,291	0	-323,569,291
2006	345,039,855	0	-345,039,855
2007	678,136,927	676	-678,136,251
2008	1,221,906,515	265,117	-1,221,641,398
2009	1,191,842,210	17,338	-1,191,824,872
2010	752,390,451	67,778	-752,322,673
2011	3,017,430,214	2,432,163	-3,014,998,051
2012	2,799,836,917	659,172,461	-2,140,664,456

Source CSA

Table 3. Depicts the value of import in Spelt, common wheat and meslin in 2002-2012, the value export in this particular agricultural products and display the individual trade deficit in this commodity regard. In the whole period of analysis export values are much less than imports (what the researcher call it as individual trade deficit), the third column in the table is an evidence for that.

Table 4 export and import value (in birr) of Durum wheat in 2002-2012

Year	import	export	dificit
2002	452,229,174	115,794	-452,113,380
2003	1,621,435,102	113,903	-1,621,321,199
2004	1,037,331,590	52,357	-1,037,279,233
2005	1,624,726,406	0	-1,624,726,406
2006	462,381,478	0	-462,381,478
2007	521,925,676	4,234	-521,921,442
2008	3,296,331,078	917,368	-3,295,413,710
2009	2,590,920,678	0	-2,590,920,678
2010	3,604,085,416	0	-3,604,085,416
2011	3,783,134,723	6,227,091	-3,776,907,632
2012	3,319,333,394	4,054,881	-3,315,278,513

Source CSA

Table 4. About the value of import and export in Durum wheat in 2002-2012. Individual trade deficit’ “the trade deficit” is found to exist in whole period of analysis, 2002-2012

Table 5 export and import value (in birr) of Grain sorghum in 2002-2012

Year	Import	Exp	Deficit
2002	553	1,681,968	1,681,415
2003	41,337,136	3,565,346	-37,771,790
2004	7,740,701	2,771,524	-4,969,177
2005	0	0	0
2006	0	263,598	263,598
2007	0	5,909,647	5,909,647
2008	825,589,515	9,530,508	-816,059,007
2009	306,756,089	0	-306756089
2010	583,542,362	163,401,287	-420,141,075
2011	257,589,912	153,905,046	-103,684,866
2012	329,223,339	83,996,443	-245,226,896

Source CSA

Table 5. With reference to the value of import and export in grain sorghum in the period 2002-2012. The grain sorghum has got a trade surplus in some periods: 2002, 2006, 2007 by the time export value exceed import values.

Table 6 the value of export and import in Dried peas ,shelled(in birr) 2002-2012

year	import	export	Deficit
2002	0	55,275	55,275
2003	1,146,083	145,373	-1,000,710
2004	20,699,964	2,475,004	-18,224,960
2005	37,598,129	0	-37,598,129
2006	56,586,093	223,355	-56,362,738
2007	111,104,125	14,499,450	-96,604,675
2008	184,968,824	10,442,974	-174,525,850
2009	280,849,374	7,716,045	-273,133,329
2010	345,970,836	3,367,487	-342,603,349
2011	453,258,775	4,348,208	-448,910,567
2012	493,429,140	3,879,205	-489,549,935

Source CSA

Concerning with the difference between export and import value in dried peas, shelled, the only “trade surplus” is observed in 2002 with 55,275 birr. By On the remaining period 2003-2012, the country has got not only a trade deficit but also it is increasing.

Table 7 exports and import value (in birr) of wheat/ meslin flour in 2002-2012

year	import	export	Deficit/surplus
2002	22,804,235	0	-22804235
2003	107,123,147	2128	-107121019
2004	1,486,546	67,724	-1418822
2005	310,200	0	-310200
2006	3,963,180	0	-3963180
2007	3,734,567	941550.37	-2793016.63
2008	33,750,740	11614.68	-33739125.32
2009	337,088,811	56555.02	-337032256
2010	45,725,124	3,428	-45721696
2011	357,837,750	48,000	-357789750
2012	183,905,234	408,886	-183496348

Source CSA

Individual trade balance is negative for the whole period of discussion (2002-2012). Individual trade deficit observed.

Conclusion

As an agrarian economy it is little to expect for one nation to import more agricultural products than it exports. However, the ever-increasing total trade deficit in Ethiopia comes from both agricultural and industrial sector. The country had recorded a huge individual trade deficit in some major agricultural products like soya bean,

Malt Not Roasted, Spelt, Common Wheat and Meslin, Durum Wheat, Grain Sorghum, Dried Peas, Shelled And Wheat/Meslin Flour. Thus the agricultural sector even is contributing for ever-increasing trade deficit in Ethiopia. The trade deficit and its economic and social implications are a matter of concern to both the public and private sectors. Thus, it is important for both parties to work together on an in-depth review of the contents of import and export items. There is an urgent need to address the trade deficit not only on the income side (i.e. export), but also on the expenditure side (i.e. import)

- ❖ The government of Ethiopia should give due attention not only on manufacturing sector but also the agricultural sector need a production therapy.
- ❖ The government of Ethiopia should strengthen the mechanisms to identify products that can be locally produced to reduce foreign exchange outflows/expenditure for imports. Similarly, additional possibilities for expanding the volume and range of export products need to be investigated in detail. Further effort should be made on producing price elastic products, hence it strengthen export.

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Appendix

Correlation trade deficit and growth in USA (1980-2007)

Year	Trade Deficit	GDP	Year	Trade Deficit	GDP
1980	-19,407	5,161.7	1994	-98,493	7,835.5
1981	-16,172	5,291.7	1995	-96,384	8,031.7
1982	-24,156	5,189.3	1996	-104,065	8,328.9
1983	-57,767	5,423.8	1997	-108,273	8,703.5
1984	-109,072	5,813.6	1998	-166,140	9,066.9
1985	-121,880	6,053.7	1999	-265,090	9,470.3
1986	-138,538	6,263.6	2000	-379,835	9,817.0
1987	-151,684	6,475.1	2001	-365,126	9,890.7
1988	-114,566	6,742.7	2002	-423,725	10,048.8
1989	-93,141	6,981.4	2003	-496,915	10,301.0
1990	-80,864	7,112.5	2004	-607,730	10,675.8
1991	-31,135	7,100.5	2005	-711,567	11,003.4
1992	-39,212	7,336.6	2006	-753,283	11,319.4
1993	-70,311	7,532.7	2007	-700,258	11,566.8

Source: U.S. Census Bureau. Trade deficit figure in millions of dollars. GDP given in billions of chained (2000) dollars.