

Export Promotion:

Three Policy Directions for Ethiopia

Kenichi Ohno (GRIPS)

January 2012



Export Promotion under PASDEP 2005/06-2009/10

- Export drive was top priority for national development.
- The monthly export steering committee was set up and used fairly effectively for policy monitoring.
- A few export-oriented sectors were targeted for policy attention, incentives and ODA support. Sector-specific institutes were created and master plans were drafted.
- However, industry's export performance was less than expected and its GDP share did not expand greatly (stagnant around 13%).



Suggested Policy Directions

Based on past policy experience, the scope of export promotion should be expanded.

1. *Integrated policy*—export promotion should be an integral part of an overall industrialization strategy.
2. *Demand orientation*—policy must be designed to meet specific needs of buyers, not just for general improvements on supply-side.
3. *Re-formulating export policy*—modality of incentives must be improved, and policy menu should be expanded. Government should offer customer-oriented policy services.



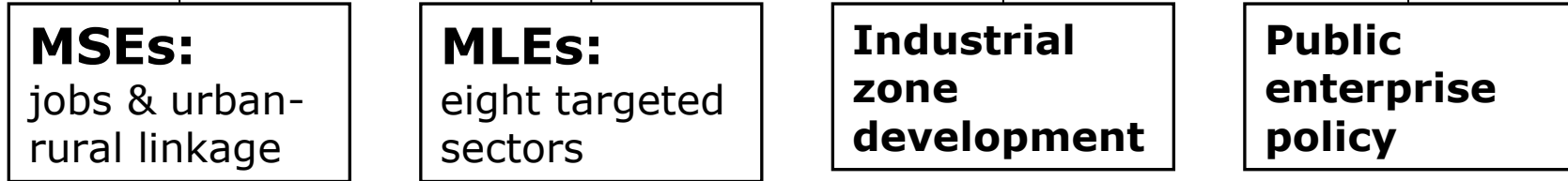
(1) Integrated Policy

- Export promotion should not be the final goal, but one of the key policy tools for achieving broad-based industrial development.
- Export policy should be linked closely with other policy tools.
- All policy tools, including export promotion, should be strengthened greatly for producing results.

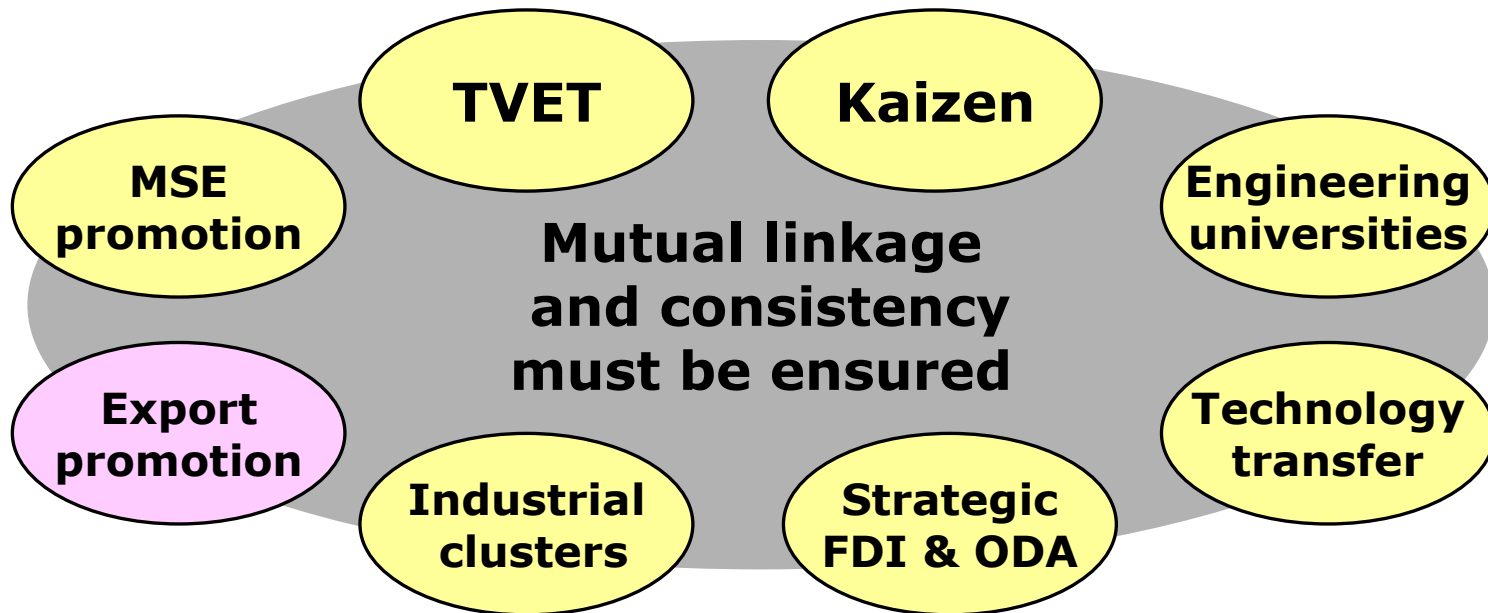
GTP:

“Building an industrial sector that plays a leading role in the economy”

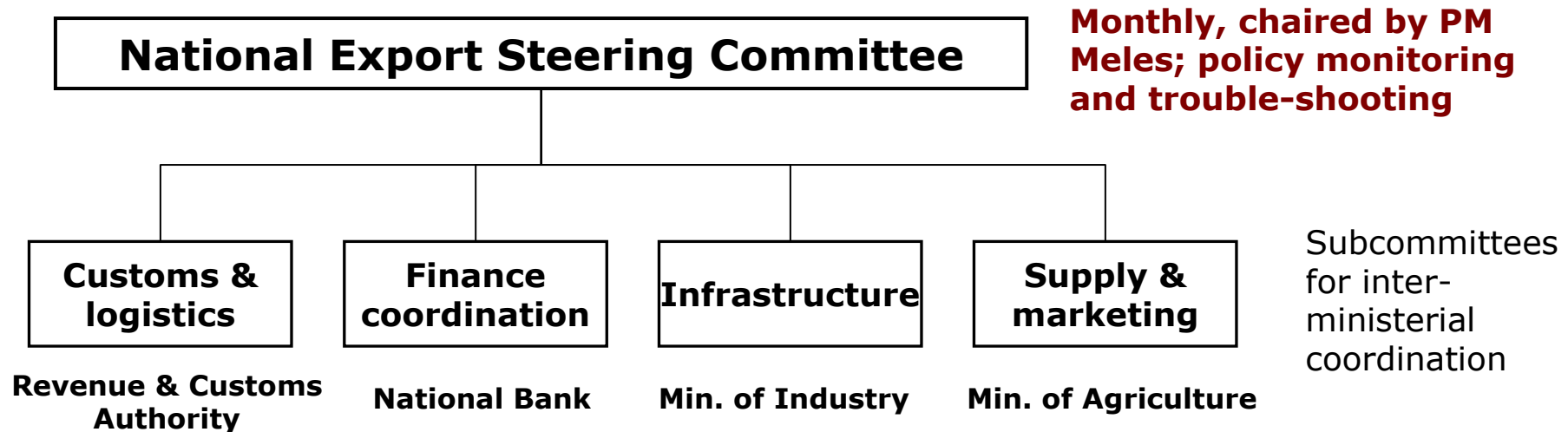
Targeted industrial growth: 20.0% (base), 21.3% (high) per year



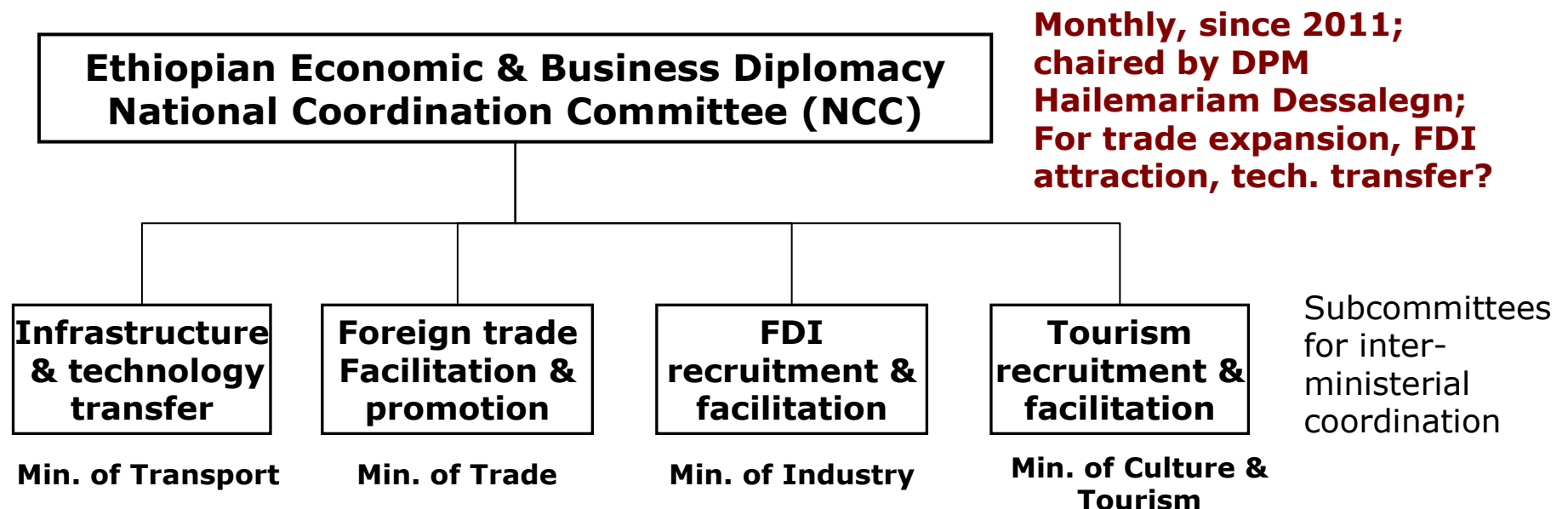
Existing and forthcoming policy tools in Ethiopia



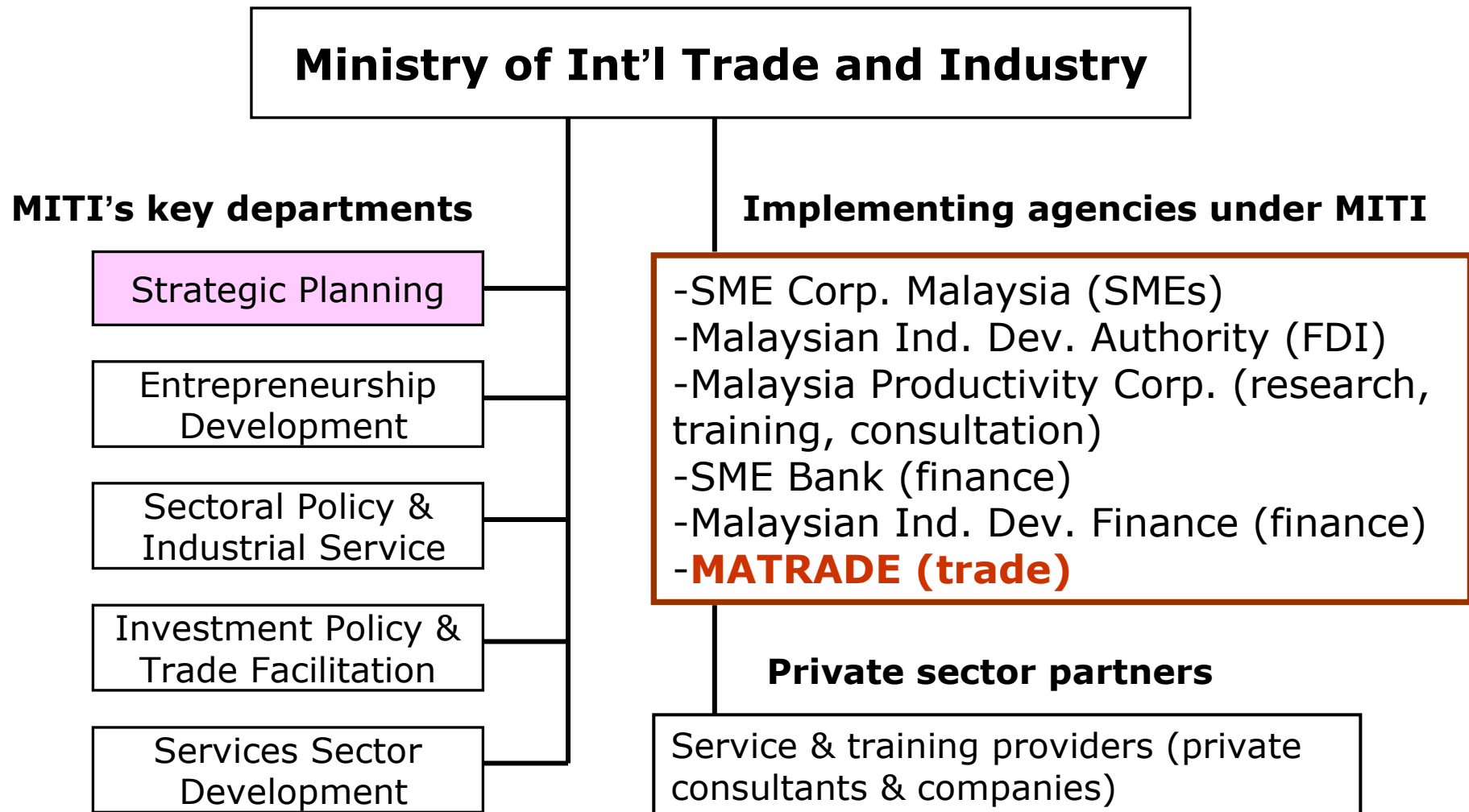
GTP: Industrial policy organization?



..... Officially connected (reporting)? Role differentiation?



Malaysia: Institutional Structure



Malaysia: Policy Structure

Third Industrial Master Plan (IMP3), 2006-2020

25 chapters, 247 pages

2 preliminary chapters

1. Performance & challenges
2. Macro-framework

8 issue chapters

- 3. External trade**
4. Investments
5. SME development
6. Branding
22. Enhancing domestic capabilities
23. Human resource
24. ICT & other technology developments
25. Logistics

15 sectoral chapters

7. Growth areas in manufacturing
20. Growth areas in services

8. Electrical & Electronics
9. Medical devices
10. Textiles & apparel
11. Machinery & equipment
12. Metals
13. Transport equipment
14. Petrochemicals
15. Pharmaceuticals
16. Wood
17. Rubber products
18. Oil palm
19. Food processing
21. Halal industry



(2) Demand Orientation

- Kaizen, TVET, local procurement, and engineering universities are supply-side measures (enhancing human & enterprise capacities).
 - More attention should be given to buyers and users; capacity building should be fine-tuned to meet their needs.
 - By listening to and fulfilling their tough and concrete requirements, industrial capability should be strengthened and foreign markets should be secured.
- ➔ Producing what customers want, not selling what you have produced.



Customer Orientation as the Most Basic Business Principle

- In a market economy, demand dictates supply—unlike a planned economy where supply shortage is common and consumers cannot choose or complain about quality.
- Government should not be a regulator but a service provider for exporters:
 - Providing market and industry information
 - One-stop service for export facilitation
 - Introducing global standards and technology
 - Business matching between buyers and sellers
 - Responding to private sector requests, etc.
- Toyota: “Delivering what customers want, when they want it, in quantities they want.”



Risk of Overproducing Unwanted Skills and Products

- Even if human and enterprise capacities improve generally, they may not find jobs or markets due to (i) small demand; or (ii) mismatch between wanted and offered skills or products.
- This may cause business slump, brain drain or social discontent.
- Given limited time and resources, it is better to target skill and technology improvements to specific areas demanded by customers rather than general improvements.



(3) Re-formulating Export Policy

- Modality of incentives must be improved for effectiveness, transparency and fairness, and future WTO compatibility.
- Incentives should not be the only or main tool for export promotion; many other tools should be added.
- Direct export subsidies are prohibited under WTO. But support for human & enterprise capabilities, which indirectly strengthen export, are not only accepted but widely practiced.



Lessons from Korean Experience, 1960s-1970s

- Export targets were set for products and markets only; individual export firms were not given targets and thus were not monitored or penalized for missing them.
- Incentives were given for past export performance, not for future promise. No firm could receive them without actually exporting.
- Financial incentives were only a small part of Korea's export policy. They cannot be evaluated independently from the overall policy package.

Sources: correspondence with Dr. Wonhyuk Lim, Dr. Yeon Seung Chung, and HE Mr. Lee Sun-jin in response to the question raised by HE Mr. Mekonnen Manyazewal.



Korea's Export Policy Package, 1960s-1970s

- Korea Trade Promotion Corporation (KOTRA)
- Monthly export promotion meetings
- Medals and national recognition for excellent performers
- Export credit system and export insurance
- Export Information Center
- Export Promotion Special Account Fund to subsidize trade fair participation, etc.
- Export Idea Bank
- Automatic import rights for exporters
- Network of exporters' associations



(Cont.)

- Creation of general trading houses
- Incentives and subsidies (many of these are now prohibited under WTO)
- Promotion laws for heavy-chemical industries (1970s only)

Note: In the 1960s, Korea's export promotion emphasized general export growth without specifying sectors or products. In the 1970s, capital-intensive industries were targeted and strongly promoted.

Sources: Wontack Hong (1977); Wonhyuk Lim (2010).



Subsidies That *Indirectly* Enhance Export Performance

Below are practiced widely around the world even today without violating WTO/FTAs/EPAs:

- Subsidies for worker training
- Subsidies for improving management, technology, R&D, product development
- Privileged financial access for SMEs
- Trade-related information, surveys, seminars, enterprise consultation
- Support for marketing, branding, IT, insurance, joining trade fairs and missions
- Cheap rents and one-stop services in industrial estates
- Start-up and incubation support



How to Expand Export Policy Menu

Ethiopia should expand export policy menu step by step, based on sufficient studies.

- Re-formulate export incentives for cost effectiveness, selection criteria, effective monitoring, future WTO conformity...
- After comparing policies practiced abroad, selectively learn and introduce new export policy tools.
- After studying various foreign models, create an agency that specializes export promotion. Strengthen its capacity over time with more study and international cooperation.