

Industries without smokestacks: Implications for Ethiopia's Industrialization

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1. Back ground and rational

The importance of exports in stimulating economic growth and structural change cannot be overstated. Exports can promote economic growth through multiple channels that include increased earnings of foreign exchange, economies of scale, and access to new technologies and knowledge. It also provides opportunities to initiate structural transformation by enhancing specialization of products that have comparative advantage; and stimulate learning by accessing to new technologies and knowledge, in addition to more conventional benefit incur from economies of scale and competition (Helpman and Krugman, 1985; Grossman and Helpman, 1991). In fact, export diversification has considerable explanatory power in per capita income growth in a cross-country empirical model (Dollar and Kraay, 2001).

In recognition of this, many countries have made attempts to diversify export product bases to achieve better economic performance. Likewise, the Ethiopian government adopted export promotion strategy in 1998 which was later (2003) developed into full-fledged industrial development strategy (IDS). The main focus of the IDS is, however, on the labor intensive manufacturing sectors such as textile, leather and other agro-processing industries to lead the industrial development and be given preferential treatment. The government has made

notable efforts to promote export in these selected priority industries through setting targets and providing multifaceted support meeting their targets.

Unfortunately, the Ethiopian manufacturing exports have not shown any significant progress thus far. For example, in 2013 the manufacturing export was only US\$ 368 million accounting about 13% of the merchandise exports. Above three-fourth of the merchandise export revenue in Ethiopia still comes from agriculture. Moreover, in the presence of surging imports and sluggish export growth the trade deficit is increasingly high and unsustainable at which the Ethiopia's export recipient can finance only about a quarter of the import bill (Gebreyesus and Kebede, 2015). This has in turn led to a shortage and rationing of foreign currency which is crucial to import capital goods and other intermediate inputs that are required to sustain growth in the manufacturing and other sectors.

Although the manufacturing sector is known to have unique role towards structural transformation, the potential of other sectors such as natural resource based activities and tradable services to provide exports and drive growth need not be underestimated. The industries without 'smokestacks' that include tradable services (e.g., IT, tourism, and transport), horticulture and agro-industry can provide new opportunities for export development in low income countries including Ethiopia, which in turn can drive economic growth directly. The development of these sectors can also provide significant opportunities to build new areas of comparative advantage including in the manufacturing sector through resolving the shortage of foreign exchange, lack of inputs and poor logistic and infrastructure services. The growth in productivity of services and agricultural inputs is found to be closely linked with the productivity growth of the manufacturing sector and exports of manufacturing.

With vast natural and manmade tourist attractions and diversified agro-ecological advantage Ethiopia is particularly well suited to exploit the opportunities in the sectors without 'smokestacks' and particularly horticulture, tourism and transport. The extent of knowledge regarding these sectors is, however, very limited. Moreover, to date the importance of the development of these sectors to the transformation of the economy has received little recognition among the policy makers. The main objective of this case study is, thus, to show the contribution of these sectors to the economy and exports as well as better understanding what the major bottlenecks and solutions are to make the sectors grow fast. A special focus is given to the travel and tourism industry, given the huge unexploited potential of this sector in

Ethiopia. This study is also believed to help policy makers devise proper strategy to promote the tradable services and natural resource based agro-industries.

The methodology that we have applied here is mainly descriptive. Toward this and in addition to the standard review of literature and policy documents, we use data from several sources including the database from the Ethiopian Central Statistics (CSA), the National Bank of Ethiopia (NBE), Ethiopia Revenue and Customs Authority (ERCA), Ethiopian Tourism Organizations, the World Bank, United Nations Tourism Organizations, and other sources.

The rest of this paper is organized as follows. The next section describes some conceptual issues about exports diversification and structural transformation. Section three provides background on Ethiopia's recent growth and structure the economy and exports. Section four reviews Ethiopia's export promotion policies. Starting section five we narrow down the focus to the travel and tourism industry because this is one of the industries without smokestacks, which is believed to offer the most potential to generate foreign exchange and employment in Ethiopia but received less attention until recently. Section five examines the state of the Ethiopian travel and tourism industry in terms of its contribution to output, employment and exports in a global context. Section six discusses the policy evolution, opportunities and challenges of the travel and tourism sector. The last section concludes with some remarks.

2. Export diversification and structural transformation: conceptual issues

Manufacturing has long been hailed as the main engine of structural transformation. The literature consists of various factors in favor of this argument that include manufacturing is main source of dynamic comparative advantage, higher productivity activity, offers special opportunity for economies of scale and learning, generator and disseminator of new technology, and stimulate cross-sector linkages. The implication is that diversification into manufacturing should be the primary goal of national development strategies of low-income countries. A substantial part of the empirical literature provides evidence in support of the manufacturing sector as engine of growth (for recent review on this see Szirmai, 2012 and Szirmai and Verspagen, 2015).

The flipside of the above argument is that diversification into primary commodities and natural resources can have detrimental effect on countries growth prospect – commonly

referred as ‘resource curse’.¹ Although the unique role of manufacturing towards structural transformation cannot be denied, the ‘resource curse’ view is not consistent with the historical evidence demonstrated in several natural resource-rich OECD countries (Australia, Canada, Scandinavia and the USA) and non-OECD countries (e.g. Brazil, Chile Uruguay). The experience in these countries shows resource based activities can lead growth over long periods and can be source of knowledge and technological advancement (Lederman and Maloney 2002).

The economic structural transformation in Asia in the last half a century has been mainly driven by the manufacturing sector growth. Replication of this growth path in other developing countries including the sub-Saharan Africa, however, is not without challenge. First, even with low-wage advantage many African countries’ transition to manufacturing might be limited due to internal factors, for example in initial conditions (poor infrastructure, human capital and institutions), geography (many small size or/and landlocked countries) and richness in natural resources. Second, the window of opportunity used by Asian countries is no longer available to new comers. The global setting and industrial environment has significantly changed and these have altered the way enterprises and countries compete (Lall, 2005).

According to Perez and, Marin and Navas-Alman (2014) the ICT revolution and its paradigm in the organization of the global corporation, the process of globalization of production and hyper-segmentation of markets, the rise of Asia (notably China and India) as well as the threat of global warming and other environmental concerns have profoundly modified the conditions (innovation and trade) in all sectors. These transformations have radically changed the capacity to innovate in natural resource based activities and driving them towards the ‘decommoditization’. In contrast, the mature manufactures, which depend on highly codified technologies and low cost labor are suffering from a process of “commoditization” and have been shown to be as vulnerable to downturns as the lower echelons of NR networks and as being just as likely to have decreasing margins (Kaplinsky 1993, 2005).

Another pessimistic view against the smokestack industries is that they generally have banks of chimney stacks emitting smoke into the atmosphere that has negative impact on natural and

¹ There are various arguments supporting this view among others low world income elasticity of primary products and declining terms-of-trade, lower skill and technological content of primary commodity production as a result lower growth spillover, the Dutch disease, limiting the effectiveness of government capacity building effort and rent-seeking.

environmental resources as well as on the local people of the destinations. Decades of manufacturing-oriented industrial growth of the west economies have had their impact felt on the environment. The periodic weather change causing global warming ,draught and flood, the acid rains over some countries of Europe, and an increase in radioactive radiation over the northern hemisphere due to the ozone layer change are some of the indicators of the impacts of smokestack industries on human being and the environment. The threat of the impact on developing countries become apparent due to shipping of toxic waste chemical to such countries as the environmental regulations governing waste treatment in the developed world became more stringent and the costs of domestic safe disposal increased.

As a result of these and other effects of traditional smokestacks industries across the globe, civic societies raised their voices on governments to reduce pollutions emitted from the use of such industries. Hence sustainable development has been the overarching goal of the international community since the UN Conference on Environment and Development (UNCED) in 1992 (UNDESA, 2012). Sustainable development in the globalization era can be achieved through diversifying the economic activities and reaping all the endowed natural resources in the context of environment friendliness.

Our intention is not to give gloomy picture for the potential of the manufacturing sector in Africa, but a reason to look beyond conventional, smokestack manufacturing as a means to achieve an industrial transformation. The industries without smokestacks that include tradable services (e.g., IT, tourism, and transport), horticulture and agro-industry can provide new opportunities for export development in Africa, which in turn can drive economic growth. If managed well these sectors can provide low income countries with significant development opportunities to build new areas of comparative advantage including the manufacturing sector. The services are also crucial for the growth of the manufacturing and the economy at large.

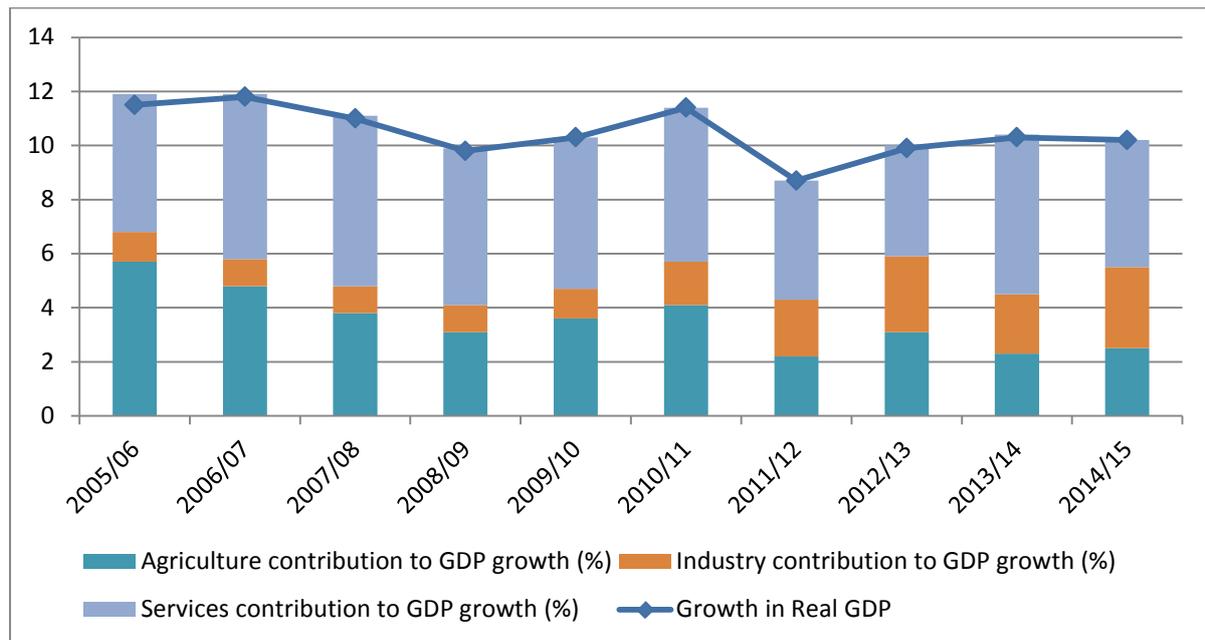
It is in this context that some scholars (e.g. Rodrik, 2007; Pack and Saggi 2006) start to broadly defined industrial policy as government selective intervention or policies that stimulate specific economic activities and promote structural changes; thus, not only industry per se but also includes non-traditional agriculture or service.

3. Ethiopia's recent economic performance in the context of structural transformation

3.1 Overall economic performance

Ethiopia has achieved a remarkable and sustained economic growth in the past decade (see Fig.1). For example, between 2005/06 and 2014/15 GDP grew by annual average of 10.5%. This is about double the sub-Saharan Africa average economic growth in the same period. The major sectors that include agriculture, industry and service have also shown unprecedented growth over the same period. The main drivers of this impressive economic growth have been the service sector and agriculture in order. The annual average of the service and agriculture sectors contribution to GDP growth over the 2005/06-2014/15 was respectively about 51.5% and 32.5%. In contrast, the industry sector contribution to GDP growth remained small, i.e., only 16.3%.

Figure 1. Ethiopia: Contribution of the different sectors to the Real GDP Growth

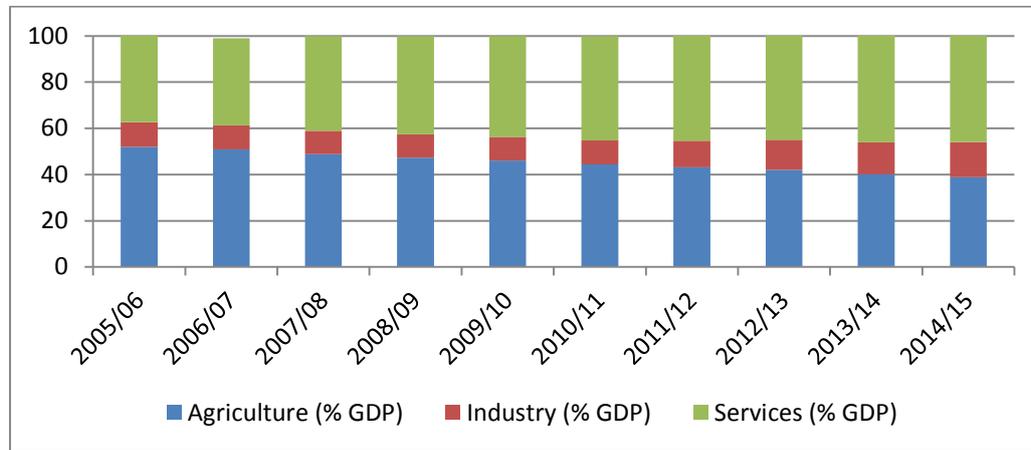


Source: NBE 2014/15

Despite fast growth, the pace of structural transformation has been slow. The structure of output has shown a shift from agriculture to service. In 2014/15, the respective share of the services and agriculture sectors share to GDP stand at 46.6% and 38.8%. However, Ethiopia's industry sector that includes construction, manufacturing, mining and utilities sub-sectors remained underdeveloped and contributing only about 15% of GDP. The contribution

of the manufacturing sub-sector to GDP is also only 5%, which is very low even in comparison to the sub-Saharan Africa average.

Figure 2. Ethiopia: Sectors shares in GDP

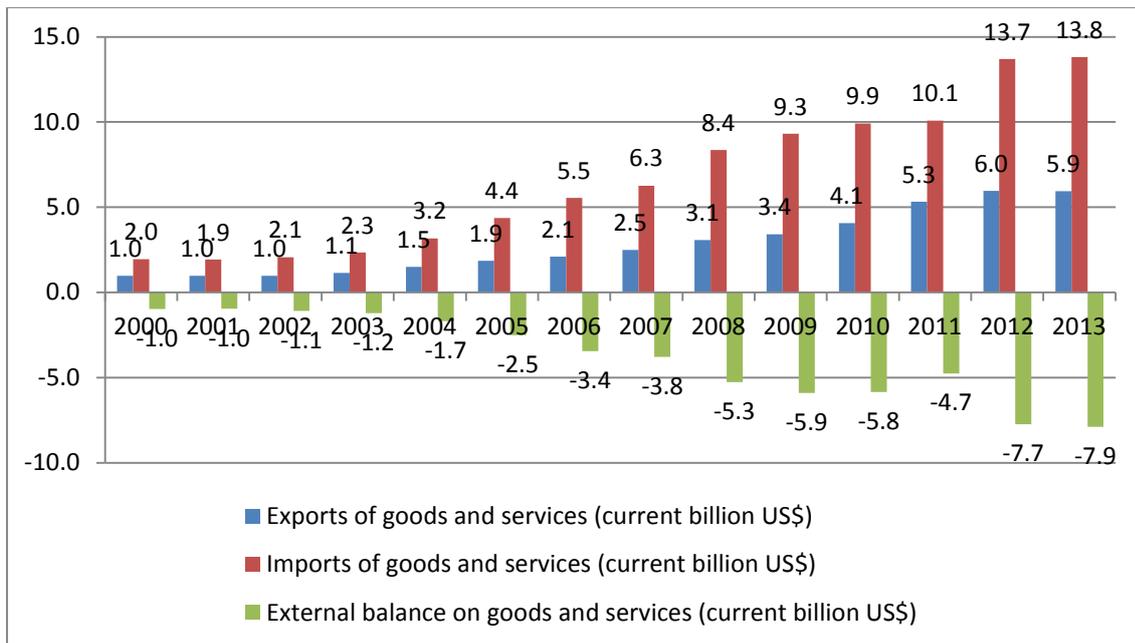


Source: NBE 2014/15

The employment structure demonstrates even more slower pace of structural transformation. Despite marginal decline, the agriculture remained dominant employer in Ethiopia accounting more than three-quarter of the workforce. According to the World Bank (2015) report between 2005 and 2013, the agriculture sector employment share declined only three percentage points (i.e. from 80.2% to 77.3%). Despite contributing more than 50% to GDP, the service sector employment share in 2013 was only 15%. Similarly, the employment share of the industry sector, which includes manufacturing, construction, mining, and utilities increased by only one percentage points between 2005 and 2013. The employment share of the manufacturing sector is insignificant. In fact, it exhibited a marginal decline from 4.9 to 4.7% in the same period.

Following the fast economic growth over the last decade, Ethiopia's merchandise import bill increased very rapidly. Imports grew more than six fold between 2000 and 2013 and reaching at about USD 13 billion (see Figure 3). In contrast, the export growth has lagged behind import expenditure and can only finance below half of the imports bill. This has resulted in a substantial growth trade deficit, in which it stood at USD 7.9 billion in 2013.

Figure 3. Ethiopia's trade balance pattern



3.2 Export structure and performance

Figure 4 shows the Ethiopia's export pattern and growth over the period 2001-2013. In this period, Ethiopia's export grew by about three fold, i.e. from about 2 billion USD in 2011 to about six billion USD in 2013. However, the recent growth pattern does not look encouraging. For example, over the period of 2001 to 2010, total export growth averaged 17.25% per annum, whereas between 2011 and 2013 the overall export growth was only 8%, which is about half of the average growth of the preceding decade.

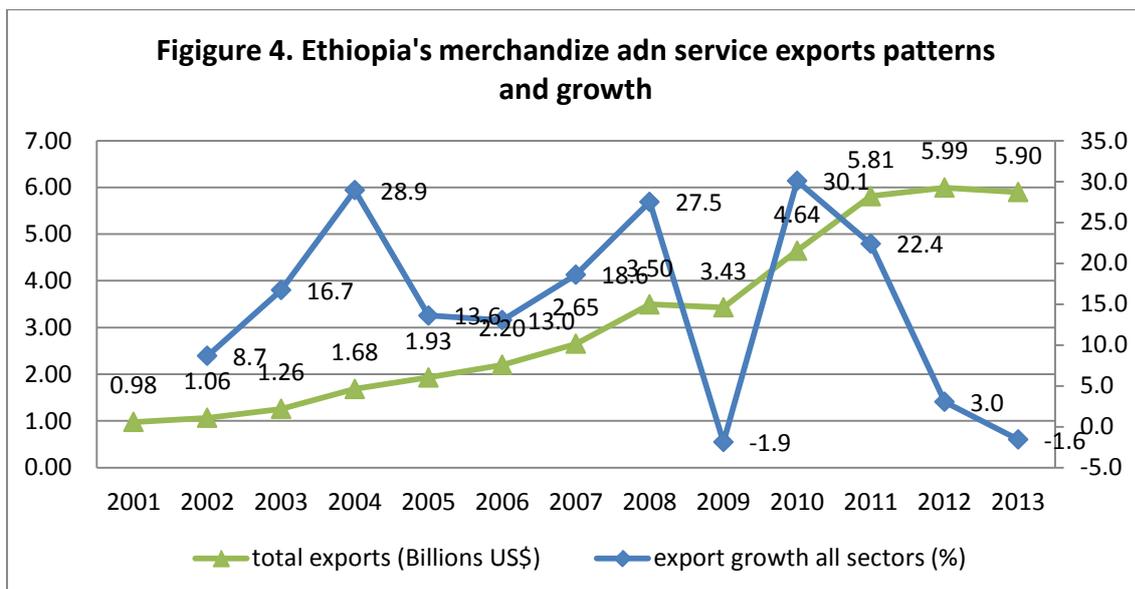


Table 1 classifies the major the exports into major sub-sectors. The broad classification between the merchandize and service exports show that despite some fluctuations each account about half of the goods and services exports. The agriculture and transport exports are relatively the dominant in the merchandize and service exports respectively.

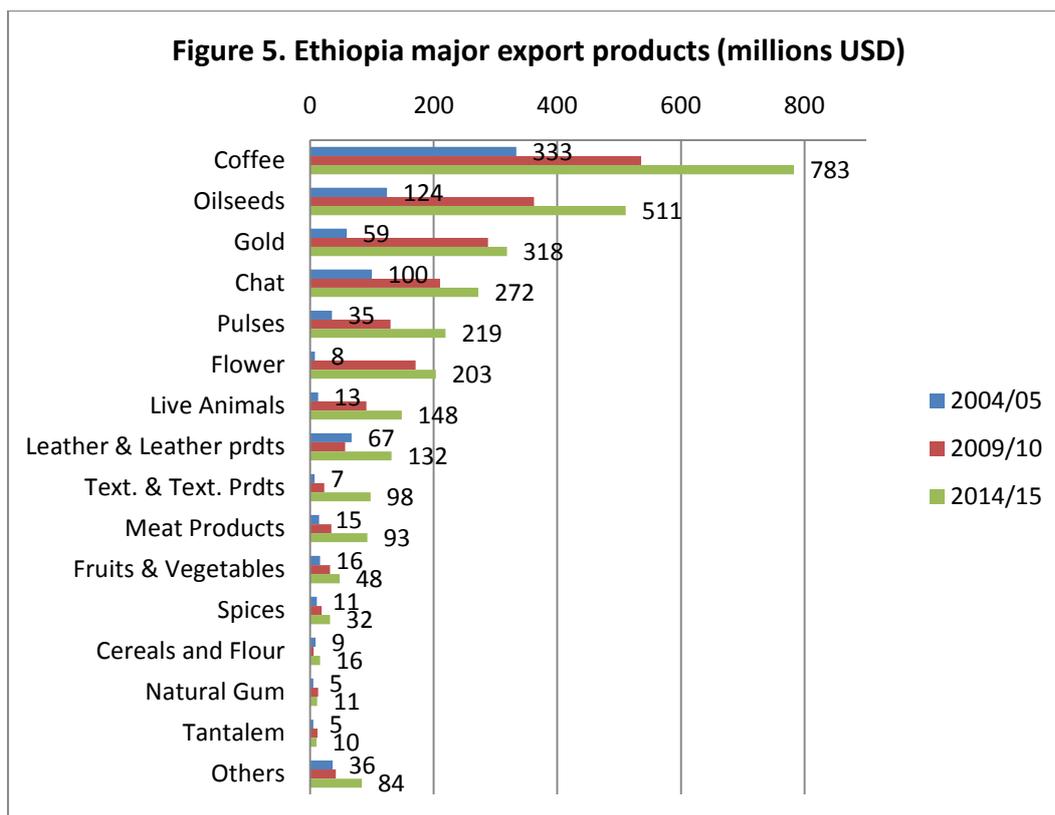
Table 5: Merchandize and service exports further disaggregation

year	Total exports of goods & services (US\$ mill.)	Merchandize export share (%)				Service export share (%)			
		Agriculture	fishing and mining	Manufacturing	total merchandize	Transport	Travel	Other services	total services
2005	1931.0	36.9	2.7	8.0	47.6	24.2	8.7	19.5	52.4
2006	2200.0	37.4	2.7	7.9	48.0	26.6	7.4	18.0	52.0
2007	2649.9	40.1	2.5	8.4	51.0	27.7	6.7	14.7	49.0
2008	3500.0	40.0	2.7	6.5	49.2	30.0	10.8	10.0	50.8
2009	3429.8	41.6	3.3	4.5	49.4	28.9	9.6	12.1	50.6
2010	4640.0	43.6	4.9	4.9	53.3	25.4	11.3	10.0	46.7
2011	5809.7	42.3	3.2	6.6	52.1	27.2	13.0	7.7	47.9
2012	5990.0	44.9	3.9	5.5	54.3	28.9	10.1	6.7	45.7
2013	5900.0	37.6	3.0	6.2	46.9	35.2	10.6	7.4	53.1

Source: ERCA for merchandize exports and World Development Indicators (WB) for the service exports

With above 37% of total goods and services exports, agriculture products continue to dominate Ethiopia's exports. Transport service is the second important sector in terms of exports earnings, which is mainly revenue generated by the national carrier, the Ethiopian airlines. The sector generates about a quarter of Ethiopia goods and services export. In contrast, the mining and manufacturing sector share in the total exports is among the lowest constituting below 5% and 9% of total export earnings respectively.

Figure 5, gives further disaggregation of the merchandize exports. With about USD 783 million in 2014/15, coffee continues the single most generator of foreign exchange for the country. Oil seeds, gold, chat, pulses and flower are in order the next largest sources of foreign exchange, all of which except gold are agricultural products. In contrast, despite huge potential, the exports from fruits and vegetables remained marginal. The manufacturing products that include textile, leather and meat are also not performing very well despite the government special attention and efforts to bring them as the major sources of exports.



Source: NBE annual publication 2014/15

4. The evolution of Ethiopia's export promotion policies

In the 1990s, the Ethiopian People's Revolutionary Democratic Front (EPRDF) led government undertook extensive reforms toward market economy by adopting a structural adjustment program under the auspices of the international financial institutions. The reform package was formulated with regard to the complementarity between trade liberalization and macroeconomic management in shaping the reform outcome. This was anticipated to change the overall incentive structure in favor of exports, private investment and diversification of exports and output structure in favor of manufactured goods. However, despite revival of the private sector participation in the economy and exports it has not accompanied by a significant increase in the volume nor in the diversification of exports (International Trade Centre, ITC, 2001).

In the mid-1990s, the Ethiopian government formulated its development vision known as the Agricultural Development led Industrialization (ADLI). Agriculture development is envisaged to play a leading role in the industrialization process by preparing various

conditions for full-fledged industrialization through supplying inputs to the industrial sector, generating foreign exchange for importing industrial inputs, and creating market for industrial output. ADLI also embraces the export-led development strategy as an engine of growth.

In 1998, the government adopted Export Promotion Strategy to alleviate the problems of trade balance. The export promotion strategy was conceived along the resource endowment and comparative advantage with a focus on the following four major lines (ITC, 2001);

- (i) the gain from surplus venting through productivity improvement and cultivation of unused land will be maximized
- (ii) the advantage of natural resources for exports of high-value agricultural products be utilized
- (iii) to open a new basis of exports of manufactured goods, grounded on the country's comparative advantage of labor, and
- (iv) to discover and exploit exportable minerals

Accordingly, coffee, oilseeds, horticulture, meat, cotton, clothing, leather and minerals were chosen as primary products for export promotion and associated incentives. Incentives that include duty drawback scheme on imported items to produce exportable, voucher scheme or bonded manufacturing warehouse, pre- and post-shipment credit guarantee schemes, and permission of retention of certain percentage of foreign exchange retention. Different types of export trade support services were also designated.

The export promotion strategy was relatively narrow in scope but resulted among others in the formation of new institutions such as, the Ethiopian Export Promotion Agency, Ethiopian Livestock Marketing Authority, and Ethiopian Leather and Leather Products Technology Institute with the aim of helping the export sector.

A comprehensive Industrial Development Strategy (IDS) was formulated in 2002/03 under which export orientation has been put as one of the key principles. Accordingly, the export oriented sectors were designated to lead the industrial development and be given preferential treatment. The strategy declares certain industries largely the export oriented such as textile and garment, leather and leather products, meat, sugar and other food products. The selection of these industries is also justified on the ground that they are labor intensive and provide strong linkage with the agricultural sector in addition to their comparative advantage to

compete in the export market. The government provided extensive support programs that include economic incentives, capacity building, cluster development and direct public investment in order to meet these targets. The specific policies and instruments with regard to manufacturing exports can be found in Gebreeyesus (2013).

In terms of sector, the focus of the IDS strategy has obviously been on the manufacturing sector. In other words, the non-manufacturing exports were not covered under this strategy. Although not with equal emphasis the government has also tried to promote the high value agricultural export products and particularly the horticulture. Below we highlight some of the policies and initiatives towards the promotion of horticulture for the purpose of exports. Whereas, the policies regarding the travel and tourism industry will be separately presented in section six.

Ethiopia has significant comparative advantage in horticulture production (suitable weather, abundant land, and cheap labor) and marketing (proximity to Europe the largest world horticulture market). In recognition of this, the Ethiopian government has identified the horticulture sector as a way for export diversification to high value crops ever since 1998. Similar to the manufacturing sector, investors in horticulture exports have been granted various incentives including exemption customs duties and import tariffs on all capital equipment and up to 15% on spare parts; income tax holidays from 1 to 5 years. Furthermore, investments in exports are exempted from income taxes if at least 50% of the output is directly exported or if at least 75% of the output is indirectly exported for a period of no less than 5 years.

The objective of the government to promote horticulture exports were carried forward through the subsequent development plan (2005/06 – 2009/10), the Plan of Action for Sustainable Development and Eradication of Poverty (PASDEP), and the Growth and Transformation Plan (GTP I) (2010/11 – 2014/15). Commercialization of the agriculture sector both through private sector large scale farms and smallholder out-grower schemes were anticipated to accelerate the production of the exportable vegetables, fruits, flowers, spices and herbs production.

Although the emphasis of the promotion in the early period was on fruits and vegetables, what emerged successful was the flower sector, which is non-traditional export sector to Ethiopia. Export oriented and private sector based floriculture industry began to emerge in the mid-1990s after two domestic private entrepreneurs started the experimentation in the

aftermath of the extensive reform programs to transform the command economy to market oriented.² These early entrants faced a number of difficulties particularly related to logistics, land and finance. In 2002, they formed an association and started to seek government support. The government responded quickly and positively.

Government was lately aware about the export potential of this sector through the experimentation of the private entrepreneurs and their effort to acquire government support. The government responded quickly and positively following the lobby from the private sector through their association. In 2002, it worked out a five-year plan of action for the sector, outlining the sector's constraints and possible solutions. With the government decision to engage in the sector promotion the flower sector start to take-off beginning 2004. By 2008 the number of flower farms reached 81 and the land covering about 1200 ha. With an export value of nearly a quarter of a billion USD in 2011, the flower sector has become among the top five export commodities of Ethiopia that generate foreign exchange. The sector has also tremendous effect on employment and poverty reduction. The flower industry has created more than hundred thousands of jobs (directly and indirectly) out of which women accounted for about 70 per cent of the total work force. Ethiopia is currently the second and fifth largest cut-flower exporter in Africa and the world respectively.

The success in flower industry has not been replicated in the fruit and vegetable sector. Government has vowed to increase the fruits and vegetables production and exports through its five-year development plans. For example it was planed to increase fruits and vegetables exports from USD 19 million in 2004/05 to USD million 120 by the end of the PASDEP plan period (2009/10). But only 32 million USD was generated by the end of the plan period (see Figure 5 above). Similarly in the GTP I period, it was expected the fuits and vegetables export to grow fast and jump to record high, but again only 48 million USD was collected by the end of the plan period.

² See Gebreeyesus and Iizuka (2012) for extensive discussion on this.

5. The contribution of Ethiopia’s travel and tourism industry in a global context

The World Tourism Organisation (WTO) defines tourism as comprising the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes. The travel and tourism sector include sub-sectors such as tour operators, accommodation, travel agents, attractions, transport, and ancillary services.

Recent studies show that especially after the new millennium tourism has become eminent following the significant rise in the number of international arrivals and receipts. In 2015, international tourist arrival reaches 1.184 billion generating receipt of about USD 1.232 trillion (see Table 2). The number of international arrivals is defined as the number of tourists who travel to a country other than that in which they have their usual residence but outside their usual environment, for a period not exceeding 12 months and receipts include any other prepayment made for goods or services received in the destination country. The travel and tourism sector is estimated contributing to 9.4% of world employment including indirect job and 9.8% of the world GDP (WITC, 2015).

Table 2: International Tourist arrivals and receipts by regions

Region	Millions Visitors (2005)	Millions Visitors (2015)	% change in Arrivals (2015/2005)	Receipts Billions USD(2005)	Receipts Billions USD(2015)	% change in Receipts (2015/2005)
Europe	453.2	609.1	34.4	348.2	448.1	28.69
Asia & the Pacific	154	277	79.87	138.6	418.9	202.24
Americas	133.3	190.7	43.06	144.6	277.2	91.7
Africa	34.8	53.1	52.59	21.5	33.2	54.42
Middle East	33.7	54.1	60.53	27.6	54.6	97.83
Total	809	1184	46.35	680	1232	81.18

Source: UNWTO 2016

In terms of regional distribution, Europe has been the leading continent in its international tourist arrivals with the world’s largest and most mature destinations. Asia and the Pacific was the second followed by the Americas. Comparatively, the Asia and the Pacific showed the fastest growth in international arrival as well as receipts (see Table 2).

Africa has a large potential for tourism with its diverse cultural and natural resources. But its share remains below 5% in worldwide tourism arrivals and 3% in worldwide tourism

receipts. Despite this limitation the tourism and travel sector in Africa is believed to have contributed to 8.1% of GDP and 7.2% of the total employment (WTTC, 2015). In terms of most visited African destinations, the countries in North Africa such as Egypt, Morocco and Tunisia are among the high ranking. South Africa and some East African countries like Kenya, Tanzania, and Ethiopia are also preferred destinations of international tourism in Africa.

Table 3: Top ranking countries in Africa

International Tourist Arrivals		Direct Contribution to Employment		Total inbound spending by International Tourists	
2004	2014	2004	2014	2004	2014
Egypt	Morocco	Egypt	Egypt	South Africa	Egypt
South Africa	Egypt	Nigeria	Ethiopia	Egypt	South Africa
Tunisia	South Africa	Morocco	Morocco	Morocco	Morocco
Morocco	Tunisia	Ethiopia	Nigeria	Tunisia	Tunisia
Zimbabwe	Algeria	South Africa	South Africa	Mauritius	Ethiopia
Botswana	Zimbabwe	Kenya	Tanzania	Kenya	Kenya
Algeria	Mozambique	Tanzania	Mozambique	Ghana	Mauritius
Kenya	Uganda	Uganda	Kenya	Tanzania	Tanzania
Nigeria	Kenya	Ghana	Madagascar	Botswana	Uganda
Mauritius	Tanzania	Algeria	Tunisia	Ethiopia	Botswana
Ethiopia (25)	Ethiopia (17)				

Source: Tourism data for Africa

As indicated above, Ethiopia has become an important destination of international tourists in East Africa. The number of international tourists arriving is growing rapidly. Ethiopia has improved its rank from 25th in 2004 to 17th in 2014 in international tourist arrival (see table 3).

Table 4 compares Kenya and Ethiopia in terms of the contribution of tourism and travels on exports, employment and GDP. In 2013, the number of tourist arrival in Ethiopia reached to 681,000, which is about tripled when compared to 227,000 arrivals in 2005. International tourist and travel receipts have also similarly tripled in the same period. On the other hand, Kenya's number of arrival and receipts has not shown any progress. Ethiopia has not yet able to reach the level of Kenyan arrival. But when it comes to receipts the two countries are almost equal. If these figures are correct the receipt generated per traveller in Ethiopia is much higher than in Kenya. This might be caused by the large share of the Ethiopian airlines in the tourist and travel receipts.

Table 4: Contribution of tourism and travels to exports, GDP, and employment: comparing Ethiopia and Kenya

Year	Arrivals ('000)		Receipts (US\$ bn)		Contribution of travel and tourism to GDP (%)		Contribution of travel and tourism to employment (%)	
	Ethiopia	Kenya	Ethiopia	Kenya	Ethiopia	Kenya	Ethiopia	Kenya
2005	227	1399	0.53	0.97	8.1	14.7	7	12.7
2008	383	1141	1.12	1.39	10.3	12.8	9	11.1
2009	427	1392	1.12	1.12	9.2	11.5	7.9	10
2010	468	1470	1.4	1.6	11.1	12.7	9.6	11.1
2011	523	1750	1.99	1.8	12.5	13.2	10.8	11.5
2012	597	1619	1.98	2	12.2	12.5	10.6	10.8
2013	681	1434	na	1.83	na	na	na	na
2015					11.3	12	9.8	10.4

In 2005, the contribution of the travel and tourism sector to GDP and employment in Ethiopia was almost about half of that of Kenya. But Ethiopia has closed down this gap following the expansion of this sector in the last decade. In 2015, the travel and tourism sector contributes about 12% of GDP and 10% of employment.

6. The Ethiopian travel and tourism industry: evolution of policies, opportunities, and challenges

6.1 Evolution of the tourism and travel industry and policies

In Ethiopia modern tourism started in 1961 following the establishment of the Ethiopian Tourism Organization. At the beginning, the income generated from tourism flow was not as anticipated but later it started to increase steadily. However the drought in 1974 and restriction on entries and free movement affected the sector. After the fall of the military government in 1991, a conducive environment for infrastructure development coupled with the removal of the travel restriction witnessed the fundamental changes to the rise of sector. Tourist arrival declined between 1998 and 1999 due to war between Ethiopia and Eritrea. But since 2000 onwards the number of tourism inflow has been rising (Walle, 2010).

In 2005, the Ministry of Culture and Tourism as per the proclamation No.471/98 was re-established with the aim of promoting wealth and national tourism attractions and building positive images of the country as a result make Ethiopia one of the top tourism destinations in Africa. Thus, the sector can also raise foreign exchange capacity, create employment

opportunity and play a role in the sustainable development. However, at that time there was no clear policy to guide the sector and enable its' effectiveness to the economic growth.

In 2009, the Government of Ethiopia under the Ministry of Culture and Tourism launched a Tourism Development policy to optimise the return from the sector and ensure the coordination of different entities involved. Due to less attention to the industry and lack of finance, most of the issues included are still under the process of implementation. But to point out some issues that can give a glimpse about the policy and showed a progress:-

- Guiding the tourism industry in a broad-based direction

In this case, the main aim is to consider and enable the sector to effectively contribute to the growth of the country and increase the number of arrivals. In support of this, tourism is given due attention in the second phase of the Growth and transformation plan (2015-2020). A Sustainable Master Plan with the help of UNECA is also in the process of formulation. In addition the Ministry of Tourism and culture has identified five major goals to be achieved in the next five years. These are natural and cultural heritage conservation and development, culture and tourism products marketing, service excellence, improve culture and tourism research and information systems and enhance cooperation and collaboration with development partners.(Ministry of Foreign Affairs). As mentioned above, the number of arrivals by 2020 is expected to be above 2.5million.

- Expansion of infrastructure and tourism facilities essential for tourism development

Ethiopia's tourism sector is expected to benefit from the expansion of infrastructures undertaking in the country including the construction of roads, airports, hotels, communication networks etc. International tourists arriving to the country have been increasing. Consequently, tourism related sub-sectors and infrastructures have started to rise. In addition to this, according to a recent news from the ministry of Culture and Tourism, Ethiopia was ranked eighth following Kenya with the number of hotels planned to be built in the country. The GDP growth rate by hotel and transport service has also been improving in the past three years as shown in table 5.

Table 5: value added growth rate by sector

	2010/11	2011/12	2012/13	2013/14	2014/15
Hotels and Restaurants	24.6	10.1	19.1	26.6	29.2
Transport and communications	9.7	12.6	16.5	12.7	13.3

Source: NBE 2015

Furthermore, to alleviate problems related to quality and international standards in the tourism sector the ministry of culture and tourism in collaboration with UNWTO assessed nearly 400 hotels and awarded stars from 1 to 5.

- Undertaking promotional work through the creation of strong market ties in order to become competitive on the international market

One of the most crucial issue underlined in this section is building a positive image with a brand that will represent the country and maximize benefit gained from it. As mentioned above, the number of tourists arriving to the country is very low compared with other East African countries. However, in March 2016, the Ministry of Culture and Tourism has launched a new brand name called “Ethiopia, Land of Origins” with its own logo, slogan and icon, with the aim of leading the tourism sector in a new way.

In addition to the new brand name, the Ministry has been parallelly trying to develop different websites, build a new communication campaign and develop new mobile apps to promote the country as a favourite tourist destination.

- Strengthening the collaborative relation among actors participating in tourism development etc...

To implement this, in August 2013, the government established the Ethiopian Tourism Transformation and the Ethiopian Tourism Organization council which is led by the Prime minister and is composed of council members including all the ministers, regional leaders and tourism bureaus of each region state, Ethiopian Airlines, Ethiopian Chamber of Commerce and Sectoral associations, hotel and restaurant and other sector representatives. (Ministry of Foreign Affairs). The tourism council is expected to enhance benefits of tourism based on potentials of the country and provide leadership to tourism sector actors and stakeholders (MOCT).

In sum, most of the issues that were listed under the policy can be said are almost in the first phase and still require the full commitment of the government and different entities.

6.2 Opportunities and Major Bottle necks of the tourism sector

Ethiopia is a country with rich cultural and abundant natural resources with 80% of the highlands of the whole of Sub Saharan Africa (UNECA SRO-EA, 2011). Ethiopia is a land of remarkable features with Ras Dashen and Danakil Depression, one of the highest and lowest places on earth respectively (MOCT, 2015).

In terms of history, Ethiopia is a very old country with over 3000 years back. The Axumite Kingdom was a powerful kingdom during the early Christian era and great civilization. Great religious civilizations in Lalibela that testified great faith and architectural skills also flourished during the ancient period. Moreover the Walled city of Harar made the country one of the four ancient Islamic cities in the world. In general, Ethiopia is home of 9 UNESCO World heritage sites and 12 world literary and manuscript heritages (Ibid).

Moreover, Ethiopia has numerous national parks with wide wildlife and biodiversity preserved in their natural habitats. It is also a country with different ethnic groups with their own unique languages, cultures and traditions (Ibid).

For a tourism to be successful some crucial enablers like political support, air access and standard accommodation are needed (AFTFP, 2009). Ethiopian airlines, a star alliance member, can be taken as one opportunity to advertise Ethiopian culture and attract tourism. In addition, the airlines new strategy to build the major new airport hub for African transport in Addis Ababa is expected to enhance the development of the tourism sector. Moreover, the country is improving existing and establishing new accommodation for tourism.

The other valuable resource of the country is its people. The country has a large pool of manpower that can be trained and employed in the sector. Besides, the country has a potential for conference tourism. The presence of UNECA, AU and other regional and international organizations has made Addis Ababa, a diplomatic hub, (Azage, 2013) and can create a strong market for conference and also domestic tourism. Thus tourism can have a substantial contribution to the overall economy by creating opportunities for local communities to sell goods and services directly or indirectly. The other opportunity is infrastructures built to improve tourist flow such as transport, communication etc can also benefit the other sectors in the economy (UNECA SRO-EA, 2011).

Furthermore, incentives in the sector have also been introduced by the government. Tax holidays and 100% duty exemptions are available for all investment capital goods imports (Assefa et al,).

However, in Ethiopia the growth and development strategy gave attention to the contribution of the manufacturing and agricultural sector than those of the service sector such as tourism. As shown in the above sections, tourism has a considerable and unexploited potential in the development of an economy. But the sector has major bottlenecks that prevent it from growing as expected. To mention some:-

- Weak coordination among tourism stakeholders- one cause for the poor implementation of the policy is lack of coordination and attention among the various stakeholders in playing their roles (Kasahun, undated). For implementing a strategy full coordination and commitment from government, public and private sectors as well as community is necessary.
- Weak attention to domestic tourism - efforts made to promote domestic tourism by the government and private sector are quite insignificant. There is no clear strategy promoting domestic tourism. Besides the weak travelling culture of the society and the low income of the majority of the population is another hindering factor. Inavailability of incentives and unaffordable prices for domestic travelers is also an obstacle for the rise of domestic tourism. As domestic tourism is less sensitive to crises, a clear strategy promoting it should be drawn (ESTDP, 2015).
- Absence of good awareness among the local people - in an assessment made in “Dejen Wereda”, East Gojjam zone of Ethiopia, lack of good awareness among the local people to preserve the potentials of tourism development made it difficult to generate good income (Asmelash, 2015). Most of the local community consider tourism as a luxurious industry and perceive tourists wrongly leading to inappropriate service delivery like over charging. Moreover, since the community has low or no awareness about the tourism’s contribution they are not committed to protect the resources.
- Shortage of trained man power : Individuals working in the tourism sector should have the necessary knowledge of history and language skill (Gebru , 2011).

- Lack of infrastructural facilities – Though the country is making a significant progress, still there is poor road infrastructure, banking service, water, power supply and communications especially in the rural areas (Shitemaw, 2015). Gebru (2011) also proved that in Axum, one of the top tourist sites in Ethiopia, inaccessibility of this infrastructures was the most important problem. In addition to this, lack of communications infrastructure can affect tourists especially those who need a frequent communication with the rest of the world due to different reasons. (World Bank 2006).
- Lack of quality service provision- In Ethiopia there is a limited supply of stars and tourist quality hotel rooms especially outside of Addis Ababa (World Bank, 2006). In addition many of the existing hotels in the tourist sites lack some basic service like sanitation, clean and quality water and lack of variety of food (Gebru, 2011).
- Inadequate promotional work – Most of the country's tourism resources are almost unknown internationally (Gebru, 2011). Different promotional strategies play a critical role in the expansion of the tourism sector. Using the new brand name and outline in the GTP the ministry of tourism and culture should actively promote the country and increase demand. One way can be through collaboration with the Ethiopian airlines to promote the new brand name. Moreover, applicable incentives both to foreign and local investors should be properly promoted.

7. Concluding remarks

Ethiopia has embarked on a massive industrialization program as a part of vision to become middle income country by 2025. Moreover, the country has long recognized the role of export for economic development. In 1990's the country adopted an export promotion strategy which was later transformed into a comprehensive Industrial Development Strategy (IDS) in 2002. These visions have been put into action through the consecutive development plans over the last decade and half, which always include export targets and associated support programs.

The Ethiopian economy has registered impressive growth over this period. However, the exports are not able to catch-up with surging import demand, which in turn is fuelled by

unprecedented economic growth. As a result the economy is facing critical foreign exchange shortage, which is feared of drugging the growth momentum.

The focus on the export promotion has largely been on the light manufacturing sector. As shown above the manufacturing exports have not taken-off yet and it may require more efforts and time. In contrast and despite less attention, the current driving forces behind the Ethiopian export growth are agriculture and the service sectors. These sectors are not only major source of exports but also the growth drivers of the economy at large. The implication is that the government needs to give enough attention to these sectors as part and parcel of not only the export promotion but also industrialization. They can ease the foreign exchange strains the manufacturing firms face to import machinery and industrial inputs. Moreover, promotion of the horticulture sector can also directly enhance the manufacturing sector by improving the supply of industrial inputs. Similar argument can be made with regard to the service sector as they can improve the efficiency of the manufacturing sector activity.

This paper has also specifically examined the opportunities and bottlenecks of Ethiopian travel and tourism sector. Ethiopia has vast natural and manmade tourist attractions but largely unexploited. Although has launched tourism development policy in 2009 and also established Tourism Transformation Council chaired by the prime minister in 2013. However, implementation of the policies and strategies remained poor and coordination among different relevant institutions weak. Lack of trained manpower in the sector and poor infrastructure facilities are also among the major bottlenecks for the growth of the sector. Equipped with the already existing policies, the policy makers need to redirect their efforts into practical implementation and institutional building that facilitate the growth of the travel and tourism sector.

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