



**WOLKITE UNIVERSITY**  
**COLLAGE OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF ECONOMICS**

**THE CONTRIBUTION OF MANUFACTURE SECTOR IN  
ETHIOPIAN EXPORT PERFORMANCE**

**A SENIOR ESSAY SUBMITTED TO DEPARTMENT OF  
ECONOMICS IN PARTIAL FULFILLMENT FOR THE  
REQUIREMENTS BA DEGREE IN ECONOMICS**

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## **Declaration**

**I. Abdu Mustefa** declared that this work title “**The contribution of manufacture sector in Ethiopian export performance.** I have produced it independently except for the guidance and suggestion of the research adviser.

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## **Acronyms and abbreviation**

GDP.....	Gross Domestic Product
ECRA .....	Ethiopian Customer and Revenue Authority
NBE.....	National Bank of Ethiopia
FTA.....	Free Trade Area
COMESA.....	Common Market for Eastern and Southern Area
EAC.....	Eastern African Community
SADC.....	Southern African Development Community
FDI.....	Foreign Direct Investment
GTP.....	Growth and Transformation Plan
EBA.....	Everything But Area
ECM.....	Error Correction Model

## ***Abstract***

*The world will not exist had it not been through the exchange of goods and services and it has played a huge part to the existence of humankind. As society developed they started noticing that and started promoting it through trade agreements between countries. After 2000 Ethiopia has been a beneficiary of a special trade agreement with the other country. This paper made an attempt to measure the importance of the trade agreement to the textile sector and how well the country utilized it by the use of both descriptive and econometric methods. The study found that real growth domestic product, Labor force, Real exchange rate (RER), and Manufacture (MN) are significantly contributed for export performance in Ethiopia. Therefore, we can say that Ethiopia should continue promoting the sector.*

***Keywords: AGO, OLS , Export, Ethiopia***

# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the Study

In the 1990's African countries were in a terrible condition as far as growth was concerned with per-capita growth (Witney Schneidman with Zenia a. Lewis, June 2012). There was an initiative from across the globe to help in the development of Africa and different forms of aids and plans took place. But around the end of the 90's a special initiative was being developed in the United States of America that would come to be known as manufacture sector in Ethiopia.

manufacture is a signature other country trade initiative that provides Sub Saharan African Countries with a most liberal access to the other country. market. Consequently, it has been the cornerstone of the other country Ethiopian exporter 'engagement with Sub-Saharan Africa on trade and investment. By providing duty-free entry into the other country, manufacture has helped to expand and diversify two-way trade between the other country, and helped to foster an improved business environment in many Sub-Saharan African countries.

manufacture was originally an 8 year agreement aimed to end in 2008.The other country. Congress and executive branch have amended manufacture on five occasions. In 2002, through the Trade Act of 2002, Congress doubled the cap for apparel made with third-country yarns and fabrics to 7 percent. Namibia and Botswana were also granted lesser-developed country statusfor the purposes of manufacture, even though their per capita income levels exceeded manufacture's limits. Congress amended manufacture a second time in July 2004, under the manufacture Acceleration Act, extending the life of the legislation from 2008 until 2015. This was done to provide more certainty to investors, importers and potential manufacturers as well as a longer lead time in which to stimulate use of the legislation. The third-country fabric provision was also extended from September 2004 to September 2007. Again there was a review of its importance and it was further extended 10 years to end in 2025. This shows how manufacture is important to the other country. (Whitney Schneidman with ZeniaLewis, June 2012).

The manufacture agreement is amazing but compared to the potential, many agree that much remains to be done to exploit the full potential of the agreement. In many African countries, manufacture exports have been limited to few products.

The manufacture deal includes the export of Transportation equipment, Machinery, mechanical appliances, electrical equipment, Minerals and metals (non-fuel), Footwear, Textile and apparel products, Agricultural products, Energy-related products to the U.S. From these the Agricultural exports play a leading role with textile apparel and the others following them.

In fundamental respects, manufacture targeted Africa's textile and apparel sector as having the most potential to expand production for the other country. market.

By providing new market opportunities for African exports, especially for non-traditional and value-added products, manufacture has helped African firms become more competitive both in the other country and internationally. Many African businesses that had never previously considered the other country. market are attending trade shows and getting orders – that include Ethiopian shoes, and a whole range of other products (Murida Kemal, May 2 manufacture in fact succeeded in attracting leading other country companies to source from Africa. Different well-known companies have sourced t-shirts, jeans and shirts from a group of manufacture beneficiaries, in other country.

Since 2000, exports under manufacture have increased more than 500 percent, from \$8.15 billion in 2001 to \$53.8 billion in 2011(national manufacture response strategy (October 2013).

Between 2001 and 2005, companies imported more than \$5.5 billion worth of textiles and apparel from manufacture beneficiaries, an average of more than \$1 billion per year. On January 1, 2005, the Multi-Fiber Agreement expired, which abolished World Trade Organization's quotas on the amounts of textiles and garments that developing countries could export to industrial nations.

Ethiopia qualified for manufacture in August 2001 by becoming the 18<sup>th</sup>beneficiary country. In general manufacture trade deal has increased the export performance of Ethiopia from 28.5 million to 310 million from the start of the agreement to 2015.

## **1.2. Statement of the problem**

manufacture was signed and has ever countries the opportunity to export to the other country without any tariffs. manufacture gives these countries the ability to compete with countries like Vietnam and Brazil that have the advantage of least cost way of production even with tariffs that are added because of the economies of scale they have attained by large scale production and commercial farming methods undertaken in these economies. The original 8 year plan the manufacture was meant to stay for has since been extended to 2015 and to 2025 which shows that the other country sees the benefit of this trade agreement and it provides our country Ethiopia the opportunity to export products we produce with comparative advantage to a huge economy of the other country. This for Ethiopia's manufacture and the textile industry is great news if we can exploit the opportunity.

There have been many researches done about the performance of textile sector after the manufacture trade policy has been signed and they tried to show how it is performing. The results for the Ethiopian case show that it has grown considerably (Murida Kemal, 2014), but compared to all the countries that have been granted this opportunity it is insignificant. It can see that the introduction of manufacture has created an opportunity for the export of additional products like textile and apparel, and leather products in a relatively high volume to the other country market which ends up to take 97% of the total manufacture export share which is in agreement with Tadesse&Fayisa(2007), but there is a significant gap in that most of the researches were done before 2015 the time when the government of the other country have agreed to expand it for 10 years so this research will be an update on how the sector has performed since then. Also the country like many others enjoying this opportunity has undertaken a national manufacture strategy with a detailed frame as to what, how and by when to achieve the goals (manufacture white paper, April 2014) which can help in the implementation of the trade agreement so this research can analyze if there had been any improvements after that.

## **1.3. Research Questions**

This research would answer the following questions:

- What is the contribution of the textile industry for the Ethiopian Economy?

- What is the trend of textile sectors in contributing Ethiopian Economy ?

## **1.4. Objective of the Study**

### **1.4.1. General Objective**

The general objective of this study was to evaluate the contribution of manufacture in Ethiopia's total export performance.

### **1.4.2. Specific Objective**

- To assess the textile sectors contribution to the GDP of the country.
- Examine the importance of the manufacture sector in the export to the other country.

## **1.5. Scope and Limitation of the Study**

The research has been made on the use of figures of total export made to the U.S on the textile sector 10 years before manufacture was implemented obtained from Ethiopian Customs and Revenue Authority (ERCA) and National Bank of Ethiopia (NBE). It also used data from previous researches done on topics related to export of other countries related to export. Constraints include lack of access and availability of researches done on topics related to this topic and other information as well. The use of secondary data will be the other constraint.

## **1.6. Significance of the Study**

The significance of this paper was be used in further researches to be conducted. It would also serve as a source of a policy recommendation regarding manufacture and the opportunity.

## **1.7. Organization of the paper**

The papers contain five chapters. Chapter one incorporates the introduction part, including background of the study, statement of the problem, significance, objective, and scope of the study with limitation and organization of the paper. Chapter two comprises literature review which including theoretical and empirical reviews. The third chapter will concern with research methodology, the fourth one deal with results data analysis by econometric model with

interpretation. Finally, in the last chapter conclusion and recommendations (policy implications) incorporated.

## **Chapter Two**

### **2. Literature Review**

#### **2.1. Theoretical Literature Review**

Trade is defined as the buying and selling of goods and services according to the 10<sup>th</sup> edition oxford dictionary. And it is easy to observe it as true. Trade happens everywhere around us from the taxi we take going to our destinations, paying and learning in school to importing multi-billion machineries from other countries.

The original form of trade was the barter system where we saw the direct exchange of goods and services for other goods and services. Barter is trading things without the use of money. Later one side of the barter started to involve precious metals, which gained symbolic as well as practical importance. Modern traders generally negotiate through a medium of exchange, such as money. As a result, buying can be separated from selling, or earning. The invention of money (and later credit, paper money and non-physical money) greatly simplified and promoted trade. Trade between two traders is called bilateral trade, while trade between more than two traders is called multilateral trade. (The economics of money, banking and financial markets)

Paul Krugman states that trade exists due to the specialization and division of labor, in which most people concentrate on a small aspect of production, but use that output in trades for other products and needs. Trade exists between regions because different regions may have a comparative advantage in the production of some tradable commodity including production of natural resources scarce or limited elsewhere, or because different regions' size may encourage mass production. As such, trade at market prices between locations can benefit both locations.

There are two types of trade Local Trade (internal) and International Economy (external). Local Trade is only limited to the boundaries of a country and it is the exchange of goods and services within the country with none to limited trade boundary. Where the currency used is the local one.

International trade is the exchange of goods and services across national borders. In most countries, it represents a significant part of GDP. While international trade has been present throughout much of history, its economic, social, and political importance have increased in

recent centuries, mainly because of industrialization, advanced transportation, globalization, multinational corporations, and outsourcing.

Empirical evidence for the success of trade can be seen in the contrast between countries such as South Korea, which adopted a policy of export-oriented industrialization, and India, which historically had a more closed policy. South Korea has done much better by economic criteria than India over the past fifty years, though its success also has to do with effective state institutions(Samuelson, P (1939)).

### **Advantages of International Trade**

International trade has many advantages that it brings to countries the first being that it promotes the allocation of economic resources among countries. This is the underlying principle of economics and it is achieved by trade.

One country engages in international trade specifically import when that country finds the price of the others product cheaper than what they have. This action saves the wastage of resources that would have been paid or lost to gain the product in the country instead of importing. Specialization and division of labor will take place as the importing country seeks to balance the BOP by finding a commodity they produce using less resource by the principles of absolute and comparative advantage.(G. V.VIJAYASRI, 2013)

International trade increases the production and consumption of goods and services by the country as the producers will have a huge market and the consumer get options from the huge market of the world. It will also bring about interdependence and the countries will avoid engaging in wars and conflicts as they have their self-interest they put first.

Other advantages include Enhances the domestic competitiveness, Enhances the domestic competitiveness, Takes advantage of international trade technology, Increase sales and profits, Extend sales potential of the existing products, Maintain cost competitiveness in your domestic market, Enhance potential for expansion of your business, Reduce dependence on existing markets, Stabilize seasonal market fluctuations, Stabilize seasonal market fluctuations and Economic growth

### **Disadvantages of international trade**

International trade has its unfavorable sides which means we have to weigh our pros and cons before we engage in it. The cons in this case are

Disadvantages of international trade span from negative social effects to adverse environmental ramifications. Sometimes the welfare of people is ignored or jeopardized for the sake of profit. Other problems associated with the exchange of goods and services between nations include possible risky dependence on foreign nations and domestic job losses.

There are social disadvantages of international trade. Although exposure to other cultures can be a benefit, it can also be harmful. The types of goods and services that flow from developed nations to emerging nations can have rapid and significant negative effects on their cultures. For example, certain music or movies from a nation such as the United States cannot be sold in their original form, and sometimes not at all, in some other nations where culture or religion is prioritized because of the changes in mentality and behavior that they may incite.

Another of the disadvantages of international trade is that the welfare of the people in nations that produce goods and services is sometimes ignored for the sake of profits. Those profits generally benefit only a minority, and that minority may not even be citizens of the nation that they are exploiting. It is common in third world countries to find that people are required to work under unfair circumstances, which may include being paid low wages or subjected to unhealthy occupational environments.

Even if there is not an issue with adverse treatment, it is still common to find that goods and services can be produced more cheaply in emerging countries. When these countries are allowed to access large markets, it can result in job losses and the collapse of industries in the developed countries because they are no longer able to be competitive.

International trade can also result in destruction and exhaustion of natural resources. Some countries are so desperate for revenue or so profit-driven that they will allow their natural resources to be over-exploited, which can create serious problems in the future. This is often exacerbated by the fact that the entities who are engaged in the task of extracting those resources or producing goods from them may do so in a way that creates substantial environmental damage. In some cases, there are limited or no resources to address these issues afterward.

Those nations with small economies are often heavily dependent on their trading partners in developed nations. It is not uncommon to find that those developed nations will attempt to exploit these relationships. They do so by using their economic power to influence political decisions that are not directly related to their trade activities. Furthermore, disadvantages of international trade result from the reliance that countries have on one another. When one nation knows that it is the source of all or the source of a significant portion of materials or services for another nation, the supplying nation can impose embargoes or other difficult trade restrictions due to differences arising or simply for financial gain.

#### **Other disadvantages of International Trade:**

- Impediment in the Development of Home Industries, Economic/Political Dependence, Misutilisation of Natural Resources, Import of Harmful Goods, Danger to International Peace and World Wars and hardships during that time

#### **Effects of Free trade Agreements on Countries Welfare**

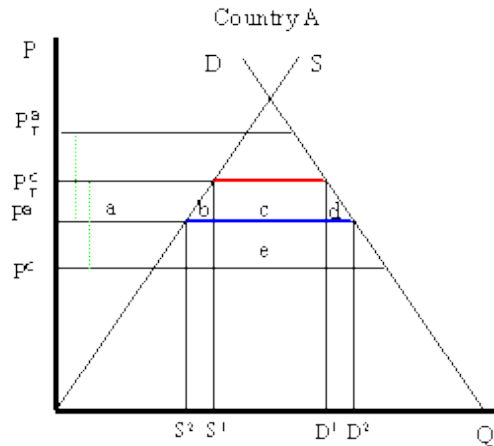
When two countries agree to trade for free there will be an effect on the price and quantity of import. They are called trade creation and trade diversion effects.

It will be further explained below.

#### **Trade creation and diversion**

We will assume that there are three countries in the world for the sake of simplicity, countries A, B and C. Each country has supply and demand for a similar good in the industry. Countries A and B will form a free trade area. The attention in this analysis will be on Country A, one of the two FTA members. We'll assume that country A is a small country in international markets which means that it takes international prices as given. Countries B and C are assumed to be large countries (or regions). Thus country A can export or import as much of a product as desired with countries B and C at whatever price prevails in those markets.

We assume that if country A were trading freely with either B or C it would wish to import the product in question. However, country A initially is assumed NOT to be trading freely. Instead the country will have the same tariff against both countries specific tariff applied on imports from both countries B and C.



Source;Jacob viner,1950

### Trade Diversion

In general, trade diversion means that a free trade area diverts trade, away from a more efficient supplier outside the FTA, towards a less efficient supplier within the FTA. In some cases, trade diversion will reduce a country's national welfare but in some cases national welfare could improve despite the trade diversion.

The adjoining diagram depicts the case in which trade diversion is harmful to a country that joins a FTA. The graph shows the supply and demand curves for country A.  $P^B$  and  $P^C$  represent the free trade supply prices of the good from country's B and C, respectively. Note that country C is assumed capable of supplying the product at a lower price than country B.

Welfare Effects of Free Trade Area Formation Trade Diversion Cases for Country A	
Consumer Surplus	+ (a + b + c + d)
Producer Surplus	- a
Govt. Revenue	- (c + e)
National Welfare	+ (b + d) - e

Free Trade Area Effects on:-

Country A Consumers - Consumers of the product in the importing country benefit from the free trade area. The reduction in the domestic price of both imported goods and the domestic substitutes raises consumer surplus in the market.

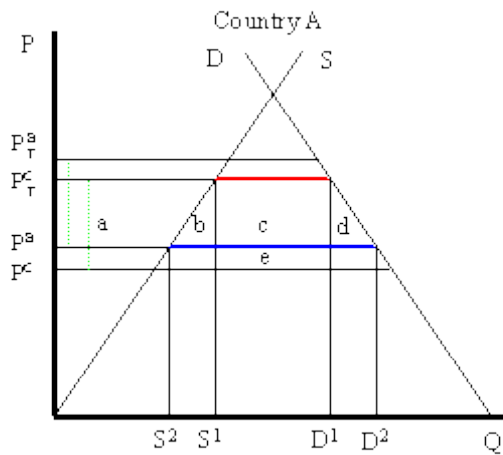
Country A Producers - Producers in the importing country suffer losses as a result of the free trade area. The decrease in the price of their product on the domestic market reduces producer surplus in the industry. The price decrease also induces a decrease in output of existing firms (and perhaps some firms will shut down), a decrease in employment, and a decrease in profit and/or payments to fixed costs. Refer to the Table and Figure to see how the magnitude of the change in producer surplus is represented.

Country A Government - The government loses all of the tariff revenue that had been collected on imports of the product. This reduces government revenue which may in turn reduce government spending or transfers or raise government debt. Who loses depends on how the adjustment is made.

National Welfare Country A - The aggregate welfare effect for the country is found by summing the gains and losses to consumers, producers and the government. The net effect consists of three components: a positive production efficiency gain (b), a positive consumption efficiency gain (d) and a negative tariff revenue loss (e). Notice that not all of the tariff revenue loss (c + e) is represented in the loss to the nation. That's because some of the total losses (area c) are, in effect, transferred to consumers.

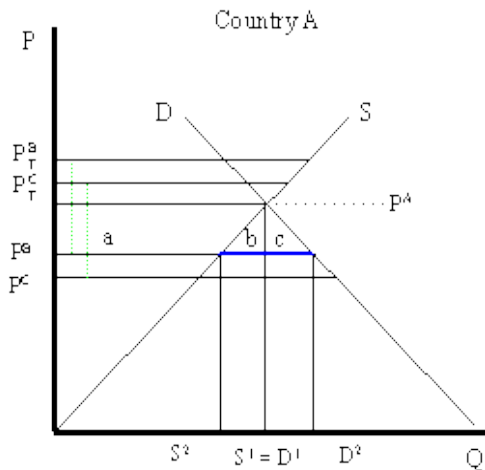
Because there are both positive and negative elements, the net national welfare effect can be either positive or negative. The diagram above depicts the case in which the FTA causes a reduction in national welfare. Visually, it seems obvious that area e is larger than the sum of a and b. Thus, under these conditions the FTA with trade diversion would cause national welfare to fall.

If conditions were different, however, the national welfare change could be positive. Consider



the adjoining diagram. This diagram differs from the one above only in that the free trade supply price offered by country B,  $P^B$ , is lower and closer to country C's free trade supply price  $P^C$ . The description above concerning the pre- and post-FTA equilibrium remains the same and trade diversion still occurs. The welfare effects remain the same in direction, but, differ in magnitude. Notice that the consumer surplus gain is now larger because the drop in the domestic price is larger. Also notice that the net national welfare effect, (b + d - e), visually, appears positive. This shows that in some cases, formation of a FTA that causes trade diversion may have a positive net national welfare effect. Thus, **trade diversion may be, but is not necessarily, welfare-reducing.**

**Trade Creation:**-In general, trade creation means that a free trade area creates trade that would not have existed otherwise. As a result, supply occurs from a more efficient producer of the product.



In all cases trade creation will raise a country's national welfare. The adjoining diagram depicts a case of trade creation. The graph shows the supply and demand curves for country A.  $P^B$  and  $P^C$  represent the free trade supply prices of the good from country's B and C respectively. Note that country C is assumed capable of supplying the product at a lower price than country B.

**Welfare Effects of Free Trade Area Formation Trade Creation Case for country A**

Consumer Surplus	+ (a + b + c)
Producer Surplus	- a
Govt. Revenue	0
National Welfare	+ (b + c)

**Free Trade Area Effects on:**

Country A Consumers - Consumers of the product in the importing country benefit from the free trade area. The reduction in the domestic price of both imported goods and the domestic substitutes raises consumer surplus in the market.

Country A Producers - Producers in the importing country suffer losses as a result of the free trade area. The decrease in the price of their product in the domestic market reduces producer surplus in the industry. The price decrease also induces a decrease in output of existing firms (and perhaps some firms will shut down), a decrease in employment, and a decrease in profit and/or payments to fixed costs.

Country A Government - Since initial tariffs were prohibitive and the product was not originally imported there was no initial tariff revenue. Thus the FTA induces no loss of revenue.

National Welfare Country A - The aggregate welfare effect for the country is found by summing the gains and losses to consumers and producers. The net effect consists of two positive components: a positive production efficiency gain (b) and a positive consumption efficiency gain (c). This means that if trade creation arises when a FTA is formed, it must result in net national welfare gains.

With the detailed understanding what the importing country faces we can understand the effect the exporting country producer government and consumers face. It mainly faces the opposite to what the importing country faces for example as the importer country producers lose their opportunity to be only providers and lose their market share the exporters will an increased market share with prices which will be less that the trade agreement. And so on for the consumers and the countries welfare.

**Aggregate Welfare Effects of a Free Trade Area**

The analysis above considers the welfare effects upon participants in one particular market in one country that is entering into a free trade area. However, when a free trade area is formed,

presumably many markets and multiple countries are affected, not just one. Thus to analyze the aggregate effects of a FTA, one would need to sum up the effects across markets and across countries.

The simple way to do that is to imagine that a country entering a FTA may have some import markets in which trade creation would occur and other markets in which trade diversion would occur. The markets with trade creation would definitely generate national welfare gains while the markets with trade diversion may generate national welfare losses. It is common for economists to make the following statement, "If the positive effects from trade creation are larger than the negative effects from trade diversion, then the FTA will improve national welfare." A more succinct statement, though also somewhat less accurate, is that "if a FTA causes more trade creation than trade diversion then the FTA is welfare improving."

However, the converse statement is also possible, i.e., "if a FTA causes more trade diversion than trade creation then the FTA may be welfare reducing for a country." This case is actually quite interesting since it suggests that a movement to free trade by a group of countries may actually reduce the national welfare of the countries involved. This means that a movement in the direction of a more efficient free trade policy may not raise economic efficiency. Although this result may seem counterintuitive, it can easily be reconciled in terms of the theory of the second-best.

### **Economic Trade Arrangements**

Economic integration is an agreement among different countries either in geographic proximity or economic and political motives to reduce and ultimately remove, tariff and non-tariff barriers to the free flow of goods or services and factors of production among each other; any type of arrangement in which countries agree to coordinate their trade, fiscal, and/or monetary policies prior to their integration. This is meant in turn to lead to lower prices for distributors and consumers with the goal of increasing the level of welfare, while leading to an increase of economic productivity of the states. It passes through various stages of agreements before reaching economic union. There are different stages but since the research is on Free trade agreement so it will be the one discussed below.

**A free trade area (FTA)** is formed when at least two states partially or fully abolish custom tariffs on their inner border. Free trade area is a type of trade bloc, a designated group of countries that have agreed to eliminate tariffs, quotas on most (if not all) goods traded between

them. An **example of FTA** is Common Market for Eastern and Southern Africa (COMESA). It is a free trade area with twenty member states stretches from Libya to Swaziland. COMESA was formed in December 1994, replacing a Preferential Trade Area which had existed since 1981. Nine of the member states formed a free trade area with countries like Rwanda, Burundi and Seychelles joining the FTA later on COMESA is one of the pillars of the African Economic Community. In 2008, COMESA agreed to an expanded free-trade zone including members of two other African trade blocs, the East African Community (EAC) and the Southern Africa Development Community (SADC). COMESA is also considering a common visa scheme to boost tourism.

## **2.2. Empirical Literature Review**

### Textile Sector of Ethiopia

The country Ethiopia is blessed with many natural resources and one of them being cotton. If the resource is utilized well it can do well for the excellent performance of the textile sector. The country's cotton Ethiopia's textile sector has been showing a great increase over the past years.

The sector as of 1996 contributes approximately 1 percent of the Gross Domestic Product (GDP), or about 18 percent of the gross value of production from manufacturing. It employs approximately 30,000 people. Most of the sector is publicly controlled, with more than 99 percent of the textile manufacturing employment residing in 18 public enterprises. (Chemonics International, 1996). Over the past years the Ethiopian economy reports growth rates of over 11% supported by a governmental effort to combat inflation which is now set at 7.4%. Ethiopia's economy is primarily based on agriculture (46% of GDP) but over the last 5 years the government has been determined to diversify the exports with a priority set for strategic sectors like light manufacturing, textile- and garment manufacturing. The Ethiopian textile – and apparel industry has grown an average of 51% over the last 5-6 years and some 65 international textile investment projects have been licensed for foreign investors. Retailers like H&M, Primark and Tesco have established offices in 2012 and are buying clothing- finished products- from Ethiopian manufacturers. The foreign direct investments (FDI) in the textile- and apparel industry have grown significantly over the last 4 years of which the inauguration in 2010 of Ayka Addis, the Ethiopian subsidiary of the Turkish textile giant Ayka Textiles, at a cost of over 140 million is the most renowned. Other investors in the textile- and apparel industry originated from India and Bangladesh. The Ethiopian government has spearheaded the sector as one of the

key priority sectors for the generation of future employment and to realize its aim to enhance foreign currency earnings. This is supported by the creation of various industry policies and incentives to attract foreign direct investors. (Nash international BV, 2014)

The sector is part of the governments Growth and Transformation Plan (GTP) which started in 2010/2011 to transform the nation from an agricultural dominated economy into a manufacturing economy with aspirations to become a middle income nation in 2025. At current the textile- and apparel sector consist of around 130 medium and large scale factories of which 37 are foreign owned. In 2014 the export size of the sector mounted to around 113 million other and employed 37,000 workers. The target set for 2020 is to realize and export growth of 1 billion other country. The sector now represents 6% of the country's total export value with the ambition to grow to 22% in 2020. With 70% of apparel products being exported to the European Union, this market has preference for the Ethiopian government leading to an investment friendly environment with a large variety of incentive schemes. Further key arguments to attract FDI consist of a young and abundant labor force, relative high level of vocational training topped by the low operational costs due to low wages and cheap electricity. Electricity rates are 8-10 times less than in other manufacturing nations. In addition to strengthen the export performance of the textile – and apparel sector consist of upgrading the Ethiopian cotton production in the various suited regions and come to a full backward integrated supply chain. Now the Ethiopian cotton sector can supply to maximum 40% of industrial demand and the remainder comes for imports. Other plans embody the erection of FDI industrial parks (IP's around 10 are under construction) and completion of the railway to Djibouti decreasing transportation time significantly. (Nash international BV, 2014)

### **manufacture and other countries experience**

The launch of manufacture in 2000 gave fresh stimulus to Lesotho exporters and to inward FDI.

As a 'lesser developed country', Lesotho could sell apparel in the US duty and quota free and, in the first phase (2000-2004), procure inputs freely anywhere in the world (a privilege not open to more developed beneficiaries like South Africa or Mauritius). However, in the second phase (2004-2008), the distinction between the two kinds of beneficiaries ends, and Lesotho, while it will have duty and quota privileges, will have to procure inputs from other manufacture beneficiary African countries (including South Africa) or from the other. Unlike the requirement

under the Lomé Convention (replaced by the Cotonou Agreement) that two stages of production be local, manufacture stipulates that three stages (yarn, fabric and clothing) be local or sourced from the US). Thus, the second stage of manufacture is more stringent in terms of input sourcing than the Lomé Convention or the Cotonou Agreement. (SanjayaLall,2011)

According to (August 2010, Mr. Jack Kipling) Swaziland owes the very existence of its apparel and textile industries to the MFA and manufacture and exports to the U.S. With one exception, all apparel manufacturers in Swaziland were established post 2000 following the enactment of manufacture which shows how much opportunity was created by manufactures.

Between 2000 and 2004, the Swaziland apparel sector grew phenomenally mainly as a result of investment by Taiwanese companies to take advantage of the duty free quota free access to the U.S. market under manufacture. At its peak in 2004, the clothing & textile sectors employed an estimated 30,000 employees in 27 establishments.

The current exports are almost exclusively focused on the U.S. market which is the provider of the trade agreement. The predominant business model of the Taiwanese owned companies is for the Swaziland subsidiaries to be purely production facilities with product development, marketing and sales being conducted out of Taiwan.

Should the U.S. market be threatened in any manner or the risk factor raised to any extent, it is quite likely that a scenario similar to the one that followed the demise of the MFA would unfold, namely at least half of the existing factories would close down and approximately 9,000 jobs be lost as the business models would not allow for the focus to shift to the EU and the South African market would not be large enough to absorb the surplus capacity. Even if it was possible for the South African market to be to a certain extent a viable alternative to the other countries. market for some Swaziland manufacturers, this would negatively impact on South African producers and destabilize the SACU region as a whole. (August 2010, Mr. Jack K)

In a research done on the contributions of manufacture for the Kenyan economy the Kenyan exports registered a marginal increase of 0.3% in 2008 to stand at US\$ 255.6 million, the available statistics indicate that the performance of Kenya garments exports reached its peak in the year 2006 of US\$ 272 million and since then, it has been on a downward trend. (Margaret Chemengich,2010)

The overall textile export performance from 2007 was characterized by downward trend in Kenya given that over 90% of the production is destined for the American market. Part of the decline can be explained by the impact of the 2008 global finance crisis and resultant recession which cut down Kenya's exports by more than 50%. This meant that some firms had to undergo restructuring in order to remain afloat, while others had to scale down their operations substantially. Kenya like other SSA countries faced stiffer competition with the liberalization of the global textile market with expiry of MFA in 2005. In particular, China and other Asian LDC countries with more efficient and competitive textile sectors have continued to displace the SSA from the American market. (Margaret Chemengich,2010)

**manufacture:-**The Ethiopian textile and apparel industry export through manufacture has shown an increasing trend on average at 35.21 percent annual rate. The textile and apparel industries engaged on export through manufacture to other country market had increased in number and become 19 in the year 2008. However, the share of the Ethiopian textile and apparel industry export through manufacture remains at the lowest point below 1 percent. The past seven years maximum, minimum and average share of the Ethiopian textile and apparel industry export through manufacture was 0.82, 0.14 and 0.41 respectively. Lesotho, Madagascar, Kenya, Mauritius and Swaziland were the top five textile and apparel exporters through AGOA. They cover on average around 87 percent of the market share. Ethiopia is too far from these countries and the rank of Ethiopia in utilizing this market privilege is at 11th on average scale.

#### **Everything but Arms (EBA)**

The Ethiopian textile and apparel industry export to EU market through EBA has shown an improvement. In the annual average growth rate, our export was 50 percent. The average export of textile and apparel industry products was 2.3 million other country. The maximum and minimum export of the Ethiopian textile and apparel industry export through EBA had been registered in the years 2007 and 2002 at the value of 4.7 and 0.3 million USD respectively

#### **Common Market for East and South Africa (COMESA)**

Compared to manufacture and EBA's market privileges, the utilization of COMESA for the regional market by Ethiopian textile and apparel industry was at the lowest level. According to table 3.8, even though the export of the textile and apparel industry into the regional market has shown an increasing trend, it remains below 1 million per year for the last 8 years. The

maximum export to the regional market through COMESA privilege had been registered 0.9 million USD in the year 2007. The growth rate of the textile and apparel industry export into the regional market through COMESA has shown higher variation for the past eight years.

## **CHAPTER THREE**

### **METHODOLOGY OF THE STUDY**

#### **3.1. DATA TYPE AND SOURCE**

The data type that was used mostly in this research was secondary data mostly from Ethiopian Customs and Revenue Authority ERCA, National Bank of Ethiopia (NBE). For general descriptive analysis the study would be processed data from international journals, magazines, periodicals, different websites which are related to the study and different publications. Also researches done on the field of manufacture and its contribution.

#### **.2. Methods of data analysis**

The significance of manufacture for the contribution from other countries experience was used.

export performance of the Ethiopian textile sector is to be examined as the main objective of this thesis paper. The overall contribution to the Economy in terms of comparison with other major export items and the amount of job creation the textile sector was analyzed. Furthermore, comparison between Ethiopia and other sub-Saharan countries to understand how we were performing.

The first important thing before we go to the interpretation of the data is defining where the sources of the data is and the first data variable Total Textile export sources from ERCA.gov.et compiled by the researcher. The second variable total number of textile exporters obtained from a book on the textile producers in Ethiopia obtained from Ethiopian Chamber of Commerce. Distance obtained from and per-capita income obtained from World Bank national accounts databank, and OECD National Accounts data files ([www.databank.worldbank.org](http://www.databank.worldbank.org)). Other data of export of Sub-Saharan countries from the US obtained from manufacture. The data used for the analysis of descriptive portion is data from the National Bank of Ethiopia. While trying to calculate the per-capita income of major importing countries and the average distance from Ethiopia the simple average calculation was made.

The descriptive analysis would have been making use of line graphs, bar graphs and tables to make the comparison easier and clear. The econometric analysis will make use of the commonly used statistical software which is STATA.

### **3.3 Methodology of the study data sources**

This study employs secondary data obtained from different institutions such as, Ministry of Finance and Economics Development (MOFED), National Bank of Ethiopia (NBE), customs authority and central statistics Authority. For general descriptive analysis the study uses processed data from international journals, magazines, periodicals, different websites which are related to the study and different publication.

### **3.4 Method of data analysis**

The methodology for analyzing the data includes econometrics regression analysis and descriptive tools like simple statistical tools, table, figures and percentages. With appropriate economic classification, economic analysis was made and inference was drawn from the result obtained in the discussion. Econometrics analysis is used to gather the factors that affect export performance.

#### **3.4.1 Econometric Analysis**

#### **3.4.2 Model Specification**

The model is used to determine whether manufactures is contributing to the export of Ethiopian textile export or not. It uses variables like manufacture, number of exporting companies in the year and income as a function of the dependent variable which is total export that year. It is expressed as follows;

Export =f (real exchange rate, real GDP, labor force, manufactures)

Thus, to determine if manufactures contributes or not, a log-linear form of model will be used and it is including of factors that affect both the export and the import of textile.

There were four regressions done each with the other continents and Ethiopian economy.the m

$$\ln \text{ export} = \alpha + \beta_1 \text{RGDP} + \beta_2 \text{LF} + \beta_4 \text{MANU} - \beta_3 \text{RER} + U_i$$

Where:  $\alpha$  is constant

RGDP IS real growth doméstico product

LF is labor forcé

MANU is manufacture

REER is real exchange rate

UI is error term

## CHAPTER FOUR

### ANALYSIS OF THE STUDY

#### 4.1 Descriptive analysis

In this section an attempt to analyze data's regarding the manufacturing and how much it is contributing to the export performance and the economy as a whole. A comparison between Ethiopia's export and other manufacture beneficiary other countries in order to identify that which country is benefiting more from the trade deal that is being undertaken. And finally, to identify which is the most influential trading partner that is engaging with Ethiopia for our export and in that the comparison will be made in terms of regions and not in specific countries as this will help to explain it better.

#### 4.1.1 Overall contribution of manufacturing to the performance of the Economy of Ethiopia

m. There are many great benefits of international trade specifically exporting commodities to other countries. They could be with benefits in foreign exchange earnings, getting higher price than there is in the home economy and getting larger market size than there is present to the producers. For the government it is to get foreign exchange that can be used to finance the imports. And the society living there is to create positive externalities in the forms of building roads and others infrastructure. And also, the society will be benefited with the opening of a factory in their living area as it provides means of employment.

Table 4.1: Descriptive analysis

	LNEXPO	LNGDG	LNMANU	LNLF	LNREER
Mean	6.646599	2.348081	7.941528	7.461383	2.171053
Median	6.548382	2.259281	7.913308	7.453875	2.208838
Maximum	7.861612	3.235400	11.81647	7.669186	2.454540
Minimum	5.477508	1.100750	4.983607	7.238515	1.970812
Std. Dev.	0.736908	0.396686	1.616964	0.136979	0.134495
Skewness	0.358340	0.022848	0.520167	0.064995	0.095024
Kurtosis	1.819631	4.769447	3.687876	1.756733	1.941923
Jarque-Bera	3.019258	4.960632	2.462827	2.474131	1.829770
Probability	0.220992	0.083717	0.291880	0.290235	0.400563
Sum	252.5708	89.22706	301.7781	283.5326	82.50000

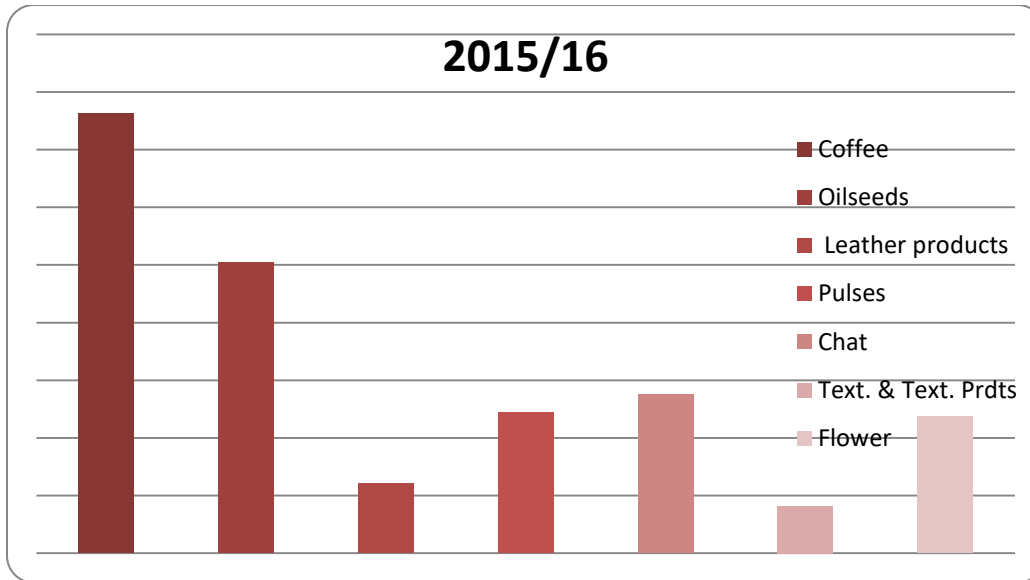
Sum Sq. Dev.	20.09225	5.822309	96.73915	0.694244	0.669287
Observations	38	38	38	38	38

Source: Own Computation (2019)

#### **4.1.2 Manufacture Vs. other major export items**

Ethiopia is a country of many exportable commodities and has been exporting different agricultural products abroad. For the largest part of the county’s export history the major export items include coffee, chat and leather and leather products. But recent opportunities have given export items like flower, oil seeds and pulses to rise up and be significant export products of Ethiopia. In the 2015/16 Calendar the export of Ethiopia is given by the following figure 3. In the figure we can see that the major export item is still coffee leading the second export item oilseeds well over the line with coffee bringing 15.26 billion birr and oil seeds bringing 10.07 billion birrs. There is a significant difference of around 5.2 billion birrs. The third major export was chat and it brought in 5.51 billion birrs followed by pulses bringing in 4.8 billion and 4.7 billion birrs brought in by flower export. Textile export comes after all of them with 1.6-billion-birr worth of export. The percentage contribution between the sectors (coffee, oil seeds, chat, pulses, flower and textile products) is coffee contributing 34.2% of export, oil seeds accounting for 22.6%, chat with 12.3%, pulses with 10.97%, flower coming in with a close 10.63% , leather and leather products with 5.44% and the textile sector with only 3.66%. This shows that the export contribution is quite low by the textile sector.

A comparison shows that there is a 17.02% decrease from the value in 2014/15 where it was 1.96 billion birr this comes after a further 6.26% decrease that occurred from 2013/14 where the export amount was 2.1 billion birr.



Source: Own drawing NBE, (2019)

Figure 4.1: Total Exports

### Interpretation of Descriptive analysis

As we can observe from the percentage and the descriptive statistics of variables (table 1) above the main variables have been described from 1980-2017. The Export (X) of Ethiopia shows a fluctuation from period to period on average. From the sample taken in this paper, the highest value of Export (X) was recorded during 2017 i.e.  $1.58 \times 10^7$ . In the country, the lower value of Export (X) was recorded during 1980 i.e. 0. In addition to this, the Export (X) had no uniform trend over the period Real Gross Domestic Product (RGDP), labor force (LF), Real exchange rate (REER). Export they have increased from one period to the other and again declined from period to period. The highest deviation was observed Export (X), which is  $2.35 \times 10^7$ , while the lowest deviation is 48.63315 REER was relatively closer to the mean value. The mean value of RGDP was 343.3807 while that of Labor Force (LF)  $3.04 \times 10^7$ , REER 155.3684, and Manu is 13297.37

## 4.2 Econometric Result analysis

In this part, the study tried to analyze the trends of regression result and its interpretation. Cross-section data is used to estimate the parameters of the given regression model, ordinary least square (OLS) estimation method is applied using STATA 12 version

The OLS estimation result for farm output presented in the following table

**Table 4.2:** Regression Results

Dependent Variable: LNEXPO  
Method: Least Squares  
Date: 06/12/19 Time: 08:32  
Sample: 1980 2017  
Included observations: 38

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNGDG	1.022217	0.169362	6.035700	0.0000
LNMANU	0.106366	0.036916	2.881306	0.0068
LNLF	0.834535	0.119673	6.973436	0.0000
LNREER	-1.300537	0.342104	-3.801582	0.0006
R-squared	0.864955	Mean dependent var	6.646599	
Adjusted R-squared	0.853040	S.D. dependent var	0.736908	
S.E. of regression	0.282497	Akaike info criterion	0.409001	
Sum squared resid	2.713350	Schwarz criterion	0.581379	
Log likelihood	-3.771025	Hannan-Quinn criter.	0.470332	
Durbin-Watson stat	1.205554			

Note: show statistically significant at 1%, 5% & 10% level of significance

Source: Own computation (209)

### Goodness of Fit of the Model or $R^2$

The goodness of fit of the model is measured by coefficient of determination, which shows the percentage or power of explained variable to express by the explanatory variables. As the above regression result table shows that  $R^2 = 0.864$ , which implies 86.49% of export function explained by the selected four (4) explanatory variables. In other words, 86.49% of variation of the dependent variable is due to the variation of the independent variable which are included in the model and the remaining variation 0.1351% (13.51%) is explained by the variable which are not included in the model or explained by the error term.

The overall significance of the variable is tested by Prob> F. If Prob> F less than 0.05 (5%) then the explanatory variables included in the model are jointly statistically significant and the explained variable. As a result, show Prob> F= 0.0000 then, it is statistically significant.

$$X = \beta_0 + \beta_1 \text{RGDP} + \beta_2 \text{LF} + \beta_3 \text{MANU} - \beta_4 \text{REER} + U_i$$

$$X = \beta_0 + 1.022217 + 0.106366 + 0.834535 - 1.300537$$

**Real growth domestic product (RGDP):** The inclusion of the real output is based on the argument that the growth in GDP of a nation leads to an increase in demand for manufactured goods (which have high income elasticity of demand). The growth in real GDP has a positive influence on Ethiopian imports, which adversely affected its trade balance (Tura, 2001) and (Muluneh, 1982).

this independent variables highly affect this dependent and positive relation with export, significant at level of 5%. This means, a unit increase in RGDP to 1.022217 increase export.

**Labor force (LF):** is very essential for export, which contribute for export performance in terms of human power and it have positive affect in export. significantly at 5% probability level of significance. Which means a unit increase in labor force will lead to 0.106366 increase in export in terms of money. it also relatively less affect next to real growth domestic and manufacture on export performance.

**Real exchange rate (RER):** The specification of trade balance model to handle real effective exchange rate is based on the premise that depreciation of the currency has great impacts to economic development. One of the prominent impacts is the marshal-Lerner condition, which represents that real depreciation leads to increase the trade balance in the long run if sum up value of import and export demand elasticity exceed one. Herman Rincon (1999) examined the relationship between trade balance and exchange rate test for marshal- Lerner condition. His empirical results provided significant evident for the marshal-Lerner condition.

It have negative impact on export performance. This means a unit decreases in real exchange rate it will lead to -1.300537 decrease in export performance and significantly at 5% probability level of significance  $\alpha$ .

**manufacture(manu)**: is a production of goods primarily the application of labor and to raw materials and other intermediate inputs. it has positive affect in export and significantly at 5% probability level of significance. It is highly affected export performance next to real growth domestic product and increase in manufacture it will lead to contribute by 0.834535 unit to export performance.

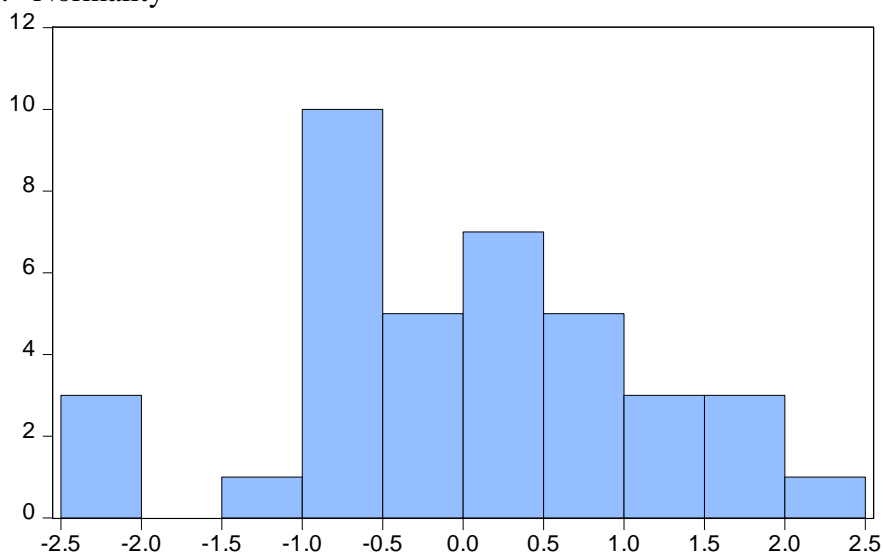
## Diagnostics Tests

### 1. Serial correlation Tests

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.593409	Prob. F (2,32)	0.5584
Obs*R-squared	1.358945	Prob. Chi-Square (2)	0.5069

### 2. Normality



Series: Residuals	
Sample 1980 2017	
Observations 38	
Mean	0.001022
Median	0.042877
Maximum	2.028463
Minimum	-2.464424
Std. Dev.	1.127865
Skewness	-0.210569
Kurtosis	2.558864
Jarque-Bera	0.588934
Probability	0.744929

## Normality test

This normality test is determined by critical p-value at 5% of level of significance and  $\chi^2$  prob  $> \chi^2$ . Let we see this test from estimation result by using of kurtosis

Test for multivariate normality; Kurtosis 2.558864  $\chi^2$  (1) = 2.127 prob $>\chi^2$ =0.744929

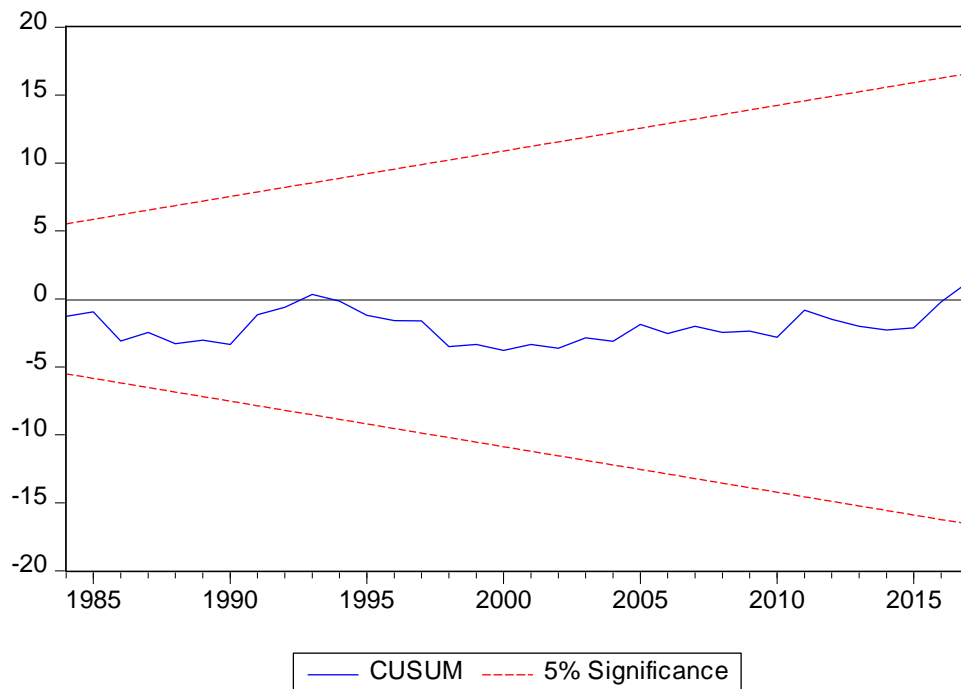
From the above normality test, our estimation results greater than critical p-value 5% of level of significance. That means our estimated result occurred is 0.1447. Therefore,  $0.744929 > 0.05$ , so reject null hypothesis that the residuals are normally distributed.

### Heteroskedasticity table

#### Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.700067	Prob. F (4,33)	0.5975
Obs*R-squared	2.972329	Prob. Chi-Square (4)	0.5625
Scaled explained SS	1.853746	Prob. Chi-Square (4)	0.7626

#### 1. Stability Tests



### Test for Heteroskedasticity

The variance of the error term is not constant for all observations, the estimates of the coefficients becomes inefficient (i.e., larger than minimum variance), as well as the estimates of the standard errors becomes biased which leads to incorrect statistical tests and confidence

intervals. Thus, to assure the assumption of constant variance of the error term, Breusch-Pagan / Cook-Weisberg test for heteroscedasticity was conducted. Moreover, the other assumptions of a classical regression model such as correct model specification, linearity and normality an appropriate test was employed for each of them (Gujarati, 2003).

Heteroskedasticity means there is not constant variance, when you`re given the first test, the Breusch-pagan one, first check the null hypothesis, constant variance. This is saying that if the null hypothesis is rejected then we have heteroskedasticity, if the p- value 0.05 or smaller, then the null hypothesis is rejected and there is significant evidence there is heteroskedasticity, so in your example below as the p-value is less than 0.05 you have heteroskedasticity. This test concerned with variation of variance. Then, the Breusch Pagan (Cook- Weisberg test for heteroskedasticity are as follows,

## **Heteroscedasticity Stata results**

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of export

Prob.  
Chi-Square 0.5625  
Prob.  
Chi-Square 0.7626

**Decision rule** :We accept null hypothesis and reject alternative hypothesis because the result at 10% significant.

There is no heteroscedaticity problem because of p-value is greater than 5% ,which means p-value count 76.26% so for this reason we can`t robust in order to correct this problem, it mean its already pass.

## **CHAPTER FIVE**

### **5. CONCLUSION AND RECOMMENDATION**

#### **5.1 Conclusion**

Export is the most important activity and carried throughout the world. It is the

economic activity, especially, in developing countries. Starting from the very beginning of the study, several issues have been rose about the export performance in many economic issues.

The general objective of this study is to identify the major determinant that affect export textile between two countries. In order to achieve the desired economic growth and stability due this activity. The empirical analysis was based on cross sectional data. The researchers employed the ordinary least square (OLS) model to ensure the relationship between dependent and independent variables.

From the regression result real growth domestic product, manufacture, and labor force are, positively related with export; whereas, real exchange is negative related with export. This shows that the increment of use of these variables increase export, further leads to improve employment rate, avoidunemploymentrate and improve economic growth and development in Ethiopia. Real growth domestic product, and manufacture are statistically significant impact on export. However, real exchange rate statistically in significant impact on export.

The study also shows that the change in real growth product leads by manufacture leads more change in export, compared to other independent variables, which included in the model, were as labor force has a smaller significance for export.

Generally, the researcher concluded that the availability of real exchange rate, labor force, manufacture, etc. is important to expand export.

## **5.2 Recommendation**

Based on the result of the regression and data analysis, the following policy implications are drawn by the study as follows:

The regression result shows manufacture is positively related with export performance and statistically significant. What expected from the government is to conduct and invest on research and development in order to expand export. More over numbers of technologies, which used to improve real growth product, labor force and manufacture etc. better to develop and disseminated to export performance at required amount and at right time to develop the export.

Creating awareness to labor force about significance of export performance for economic growth, stability and reduction of inflation. it also relatively less affect next to real growth domestic and manufacture on export performance.

The real GDP is positively related with export performance and highly statistically significance.this independent variables' highly affect this dependent and positive relation with export had significant at level of 5%.so the government encourage these real domestic product.

The real exchange rate is negative related with export performance and statistically significance. One of the prominent impacts is the marshal-Lerner condition, which represents that real depreciation leads to increase the trade balance in the long run if sum up value of import and export demand elasticity exceed one.

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## Appendix (1)

### Regression result

Dependent Variable: LNXPO

Method: Least Squares

Date: 06/12/19 Time: 08:32

Sample: 1980 2017

Included observations: 38

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNGDG	1.022217	0.169362	6.035700	0.0000
LNMANU	0.106366	0.036916	2.881306	0.0068
LNLF	0.834535	0.119673	6.973436	0.0000
LNREER	-1.300537	0.342104	-3.801582	0.0006
R-squared	0.864955	Mean dependent var		6.646599
Adjusted R-squared	0.853040	S.D. dependent var		0.736908

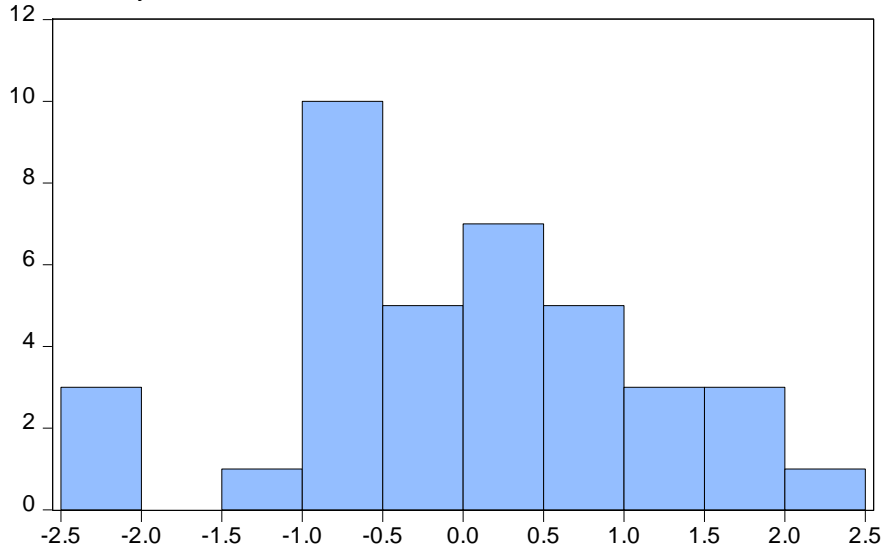
S.E. of regression	0.282497	Akaike info criterion	0.409001
Sum squared resid	2.713350	Schwarz criterion	0.581379
Log likelihood	-3.771025	Hannan-Quinn criter.	0.470332
Durbin-Watson stat	1.205554		

### 1. Serial correlation Tests

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.593409	Prob. F(2,32)	0.5584
Obs*R-squared	1.358945	Prob. Chi-Square(2)	0.5069

### 2. Normality



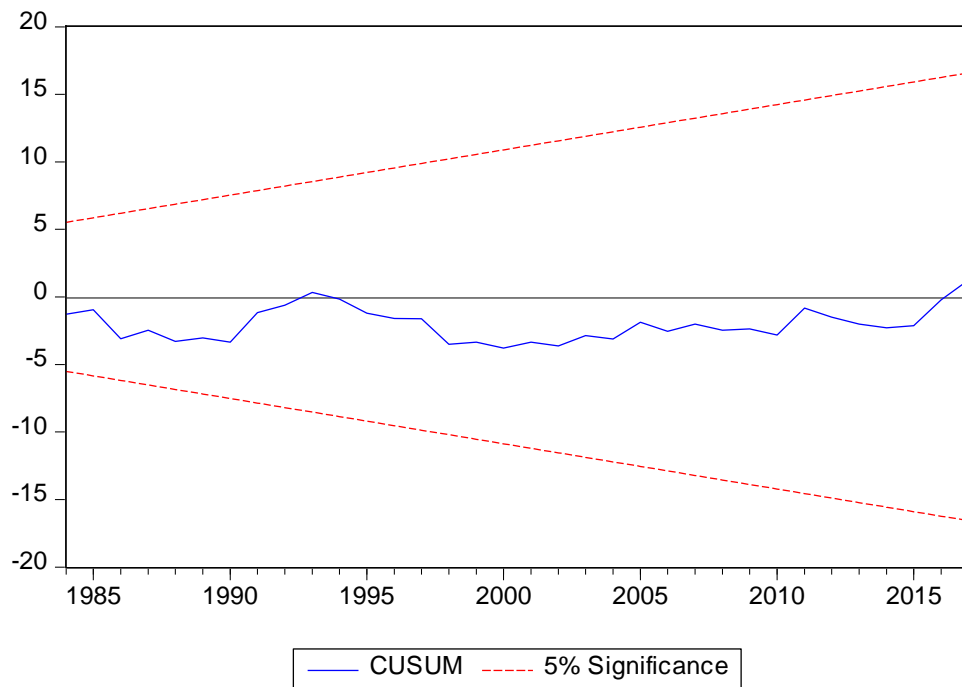
Series: Residuals	
Sample 1980 2017	
Observations 38	
Mean	0.001022
Median	0.042877
Maximum	2.028463
Minimum	-2.464424
Std. Dev.	1.127865
Skewness	-0.210569
Kurtosis	2.558864
Jarque-Bera	0.588934
Probability	0.744929

### 3. Heteroscedasticity

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.700067	Prob. F(4,33)	0.5975
Obs*R-squared	2.972329	Prob. Chi-Square(4)	0.5625
Scaled explained SS	1.853746	Prob. Chi-Square(4)	0.7626

### 4. Stability Tests



	LNEXPO	LNGDG	LNMANU	LNLF	LNREER
Mean	6.646599	2.348081	7.941528	7.461383	2.171053
Median	6.548382	2.259281	7.913308	7.453875	2.208838
Maximum	7.861612	3.235400	11.81647	7.669186	2.454540
Minimum	5.477508	1.100750	4.983607	7.238515	1.970812
Std. Dev.	0.736908	0.396686	1.616964	0.136979	0.134495
Skewness	0.358340	0.022848	0.520167	0.064995	0.095024
Kurtosis	1.819631	4.769447	3.687876	1.756733	1.941923
Jarque-Bera Probability	3.019258 0.220992	4.960632 0.083717	2.462827 0.291880	2.474131 0.290235	1.829770 0.400563
Sum	252.5708	89.22706	301.7781	283.5326	82.50000
Sum Sq. Dev.	20.09225	5.822309	96.73915	0.694244	0.669287
Observations	38	38	38	38	38