



**Frontier Momentum: Ethiopia's Trade Ascendancy Capital Markets'  
Effect on Import-Export Trade Balance**

**A Thesis Submitted to Department of Management College of Business and  
Economics, Addis Ababa University in Partial Fulfillment of the  
Requirements for the Degree of Master of Science in International Business**

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## **Declaration**

I, the undersigned, declare that the thesis entitled “Frontier Momentum: Ethiopia's Trade Ascendancy Capital Markets' Effect on Import-Export Trade Balance” is my original research work and has not been presented for a degree of any other university. All sources of materials used for the thesis have been properly acknowledged. It is offered for the award of the degree of Master of Science in International Business from Addis Ababa University

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This is to certify that the thesis prepared by Bethelhem Abate entitled: Frontier Momentum: Ethiopia's Trade Ascendancy Capital Markets' Effect on Import-Export Trade Balance and submitted in partial fulfillment of the requirements for the degree of master of science in International Business compiles with the regulation of the university and meets the accepted standards with respect to originality and quality.

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## **List of Abbreviations and Acronyms**

AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
CMA	Capital Market Authority
ECX	Ethiopian Commodity Exchange
ESX	Ethiopian Securities Exchange
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GTP	Growth and Transformation Plan
SMEs	Small and Medium-sized Enterprises
SMEs	Small and Medium-Sized Enterprises
SPSS	Statistical Package for Social Science
UNIDO	United Nations Industrial Development Organization
WTO	World Trade Organization

## **Abstract**

*Ethiopia has experienced rapid economic growth in the past few years, yet the country's import-export trade balance remains handicapped by funding gaps, infrastructural shortcomings, and regulatory bottlenecks. This study examines how the progress of capital markets such as the creation of the Ethiopian Securities Exchange could potentially end such issues. The research used quantitative analysis of 200 stakeholder primary questionnaire data and secondary data, the research assesses the degree to which better access to finance, risk management instruments, and market transparency contribute to trade outcomes. Foreign direct investment (FDI), trade infrastructure, exchange rate stability, trade policies, foreign currency availability, capital market development, and ease of finance are analyzed using different linear regression models. The results reveal statistically significant and positive correlations among infrastructure upgrading trade balance, availability of finance, and capital market development. The respondents demonstrated capital market capability to plug funding gaps and provided the most frequent constraints as infrastructure and funds as significant impediments. The competitiveness of Ethiopia in global trade is dependent on profound capital markets, relaxed regulation, and focused investment in technology and logistics, as per the report. The implication from the evidence is that capital market development is positively related to trade balance improvement, particularly in conjunction with institutional change and investment in infrastructure. According to this analysis, the study suggests targeted interventions to enhance the environment of the capital market and foster export-led growth. The recommendations aim to help policymakers, investors, and private sector actors contribute to Ethiopia's trade competitiveness and economic transformation.*

**Keywords:** *Capital markets, Import-Export Trade Balance, Frontier Momentum.*

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Ethiopia has been at the center of intra-regional trade from ancient kingdoms like the Kingdom of Axum. The country has made concerted efforts in recent decades to develop its economy, away from its agrarian economy and towards one supported by manufacturing and services. Ethiopia's GDP accelerated at one of the highest growth rates in Africa between 2010 and 2020, averaging 8.2% per year (World Bank, 2023).

Ethiopia's trade market, especially its import-export balance, continues to suffer from structural problems even with this growth. Most companies, including SMEs, still have no access to finance, with such companies facing a challenge to access finance based on the collateral requirements put forward by banks. Growth in businesses and the ability of the nation to reap from new opportunities in trade are constrained by this finance gap (World Bank, 2021).

Also, the country's infrastructure such as its roads, logistics terminals, and seaport connections via Djibouti has lagged behind the needs of modern trade. Ethiopia's exports are less competitive in international trade because of poor transport infrastructure and laggings in logistics, which also raise the cost of transactions (African Development Bank, 2023). The inefficiencies in the trade environment also arise from complicated rules. Firms tend to lament bureaucratic delays, irrational policies, and slow customs formalities (International Trade Centre, 2023).

Ethiopia has undertaken various reforms to grow its financial sector to mitigate such issues. Among the prominent initiatives has been the establishment of the Ethiopian Securities Exchange (ESX) to improve access to the capital market for businesses and investors. Efficient capital markets can simplify risk management tools such as bonds and equity products, provide alternative financing, and reduce reliance on conventional lending (African Securities Exchanges Association, 2023).

The primary aim of this study is to consider how capital market development may improve the trade balance of Ethiopia. The study considers how trade may be improved through access to capital, institutional reform, and financial instruments in the hope of contributing to policy-making

in favor of Ethiopia's higher economic interests.

## **1.2 Statement of the Problem**

The government of Ethiopia has also initiated various economic reforms, including the opening of the Ethiopian Securities Exchange (ESX), in order to enhance its trade sector and make it accessible to foreign markets. One of the most important strategic papers, like Ethiopia's Growth and Transformation Plans (GTPs), indicates that increasing structural inefficiencies and finance access will enhance the competitiveness of the import-export industry (African Development Bank, 2020; World Bank, 2021). Capital markets are known to be a revolutionary vehicle that can enhance market participation, lower transaction costs, and offer financing opportunities (International Monetary Fund, 2022).

Ethiopia's private sector remains haunted by significant problems, which prevent it from achieving its objectives against these hopes. One of the key problems is very restricted access to financing; SMEs have no credit access because of collateral needs that are too expensive and perceptions by financial institutions about the risk (World Bank, 2023). Shortages of infrastructures, like Djibouti's dependence on port terminals and limited road networks, lead to cumbersome logistics costs and time loss (African Development Bank, 2023). In addition, without a dynamic capital market, companies are not at a point where they can obtain alternative funding sources like stocks and bonds. Because of inefficiencies in bureaucracy and unstable trade policies, Ethiopia is not able to utilize its maximum potential for trade (International Trade Centre, 2024).

Ethiopia lags behind the rest of the countries in the African continent, such as Rwanda and Kenya, in making use of capital markets as conduits to deepen trade, as found in empirical research (Mwega & Ndungu, 2023). The import-export sector in Ethiopia will continue to be vulnerable to world market shocks and fail to grow steadily unless structural issues are corrected.

Ethiopia stands to lose its potential for being a competitive trade center in Africa if all these concerns persist. Lower foreign direct investment (FDI), lower economic growth, and lower job prospects in strategic sectors are some of the long-term consequences of this. It has long-term implications, such as lower foreign direct investment (FDI), lower economic growth, and lower job opportunities in strategic sectors. To meet these challenges, there is a need to analyze the possibility of opening capital markets to improve the trade balance of Ethiopia by improving access to finance, reducing the cost of transactions, and establishing a balanced trade

environment. A study of this nature brought forth evidence-based recommendations that may assist policymakers and stakeholders in realizing Ethiopia's economic aspirations.

### **1.3 Research Questions**

Based on the above problem stated, this research is expected to answer the following questions:

1. What is the current state of trade balance in Ethiopia's import-export sector?
2. How prepared and aware are stakeholders for the integration of capital markets into Ethiopia's trade sector?
3. What role do capital markets play in enhancing financing options and providing risk management tools in Ethiopia's import-export sector?
4. What is the relationship between capital market development and trade balance in Ethiopia's import-export sector?

### **1.4 Objectives of the Study**

#### **1.4.1 General Objective**

The general objective of the study was to explore the potential role of capital markets in enhancing Ethiopia's import-export trade balance.

#### **1.4.2 Specific Objectives of the Study**

The specific objectives of the study are:

1. To analyze the current state of trade balance into Ethiopian import-export sector.
2. To examine the preparedness and awareness of stakeholders for the integration of capital markets into Ethiopia's trade sector.
3. To evaluate the prospective role of capital markets in enhancing financing options, providing risk management tools into Ethiopian import-export sector.
4. To analyze the relationship between capital market development and trade balance into Ethiopian import-export sector.

### **1.5 Significance of the Study**

This research was designed to examine the possible contribution of the capital markets to augmenting the trade balance of Ethiopia, specifically export-import trade balance. The research will inform the development of evidence-based policy making to inform regulatory frameworks and incentive systems to promote trade and investment. It provides business options for exploiting capital market mechanisms for greater efficiency and competitiveness as well as

investment opportunities in the trade sector. Academically, the research will assist in clarifying the interaction between trade and capital markets and enrich scholarly literature on enhancing trade balance in developing nations. By means of public awareness of the advantages of capital markets, it seeks to enhance informed engagement and backing for policy change. Finally, it will enable strategic planning in the long term based on an objective analysis of prevailing challenges and possible opportunities.

## **1.6 Scope of the Study**

This research considers the impact that capital market development and growth can have on trade balance through making finance more available, improving risk management, and improving overall market efficiency. By looking at future trends such as new financial product introduction and policy reforms, this research aims to have a proper understanding of the channels by which capital markets can improve trade activity.

It contrasts with other frontier and emerging markets in a way that brings out Ethiopia's particular challenges and opportunities and, therefore, provides more insight into its trade and market development. In short, the study makes both backward- and forward-looking remarks. It examines historical trade balance and market growth in an effort to determine trends and how they affect matters today. Simultaneously, it outlines future prospects in accordance with existing trends and possible policy responses in an attempt to predict the short- and long-term impact on the trade balance of Ethiopia.

Methodologically, the research applies descriptive and explanatory research design for the purpose of explaining the expected development of capital markets and their resulting impact on trade. It aims at establishing cause-and-effect between capital market improvement and import- export performance using econometric and statistical analysis to test hypotheses and measure the influence factors responsible for trade outcomes. This systematic strategy guarantees serious examination of how the evolution of the capital markets in Ethiopia is able to redefine its balance of trade and offer meaningful policy guidelines for policymakers, investors, and researchers.

## **1.7 Limitations of the Study**

This research is faced with various limitations in scope and design including variables, sample size, methodology, and context. The study focuses on particular variables of import-export trade

and capital market development but no other determinants such as technological progress, political stability, and infrastructure that may limit generalizability of results. Sample size is limited by the early development of the capital markets in Ethiopia, threatening statistical power and validity of results. Areas of highest significance such as manufacturing and agriculture can also be underrepresented, hence introducing bias.

Cross-sectional data restrict what can be observed for long-term trends. Contextually, the specific political, economic, and social context of Ethiopia does not allow findings to be extrapolated to other emerging markets, and the brief observation time horizon permits restrictions to be put on what can be observed for long-term effect. Additionally, the relatively new theory in this field of research constrains the range of analysis, and the very volatile market conditions in Ethiopia require constant monitoring because changes in the trade and regulatory environment may affect the outcomes.

## **1.8 Outline of the Research**

This research study has been structured into five chapters. Chapter one is made up of the introduction section. That is, it has the background of the study, statement of the problem, objectives of the study, importance of the study, the scope of the study, limitation of the study, and study organization. The second chapter is about literature reviews that include both theoretical and empirical literature. Chapter three is methodology. Chapter four is data analysis, results and discussion and chapter five is summary, conclusion and recommendations. References and appendices have been appended at the end of the study.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

The literature review of the study “Frontier Momentum: Ethiopia's Trade Ascendancy Capital Markets' Impact on Import-Export Trade Balance” concentrates on contemporary studies carried out in the last decade. The literature review embraces the most relevant issues of the capital markets' evolution in Ethiopia, their impact on the trade balance, as well as comparative studies with other emerging and frontier markets.

#### **2.1 Theoretical Review**

##### **2.1.1 Economic Growth and Trade in Ethiopia**

Trade is required to stimulate economic growth, as stipulated in economics (Levine, 2020). Coffee is a foreign exchange earner crop, and agriculture is an important sector that Ethiopia heavily depends on (Assefa, 2015). The Growth and Transformation Plan (GTP) states that Ethiopia plans to grow into an industrialized economy with an emphasis on manufacturing and services (World Bank, 2020).

Trade theories like comparative advantage focus on Ethiopia's comparative advantage in agriculture and labor-intensive manufacturing. Regional trade blocs like COMESA and the African Continental Free Trade Area (AfCFTA) provide means to boost market access, reduce trade barriers, and enhance economic integration (Tadesse & Fayissa, 2020).

##### **i. Historical Overview of Ethiopia Trade Development**

Gradually, the history of trade in Ethiopia has been transformed. Coffee has remained the leading export commodity of Ethiopia, with the economy being agrarian-based. The dominance of coffee in the Ethiopian trade basket implies the nation's past dependence on agriculture, which has characterized its socioeconomic structure. The economy of Ethiopia has had a tendency to be hounded in the sense that it is dependent on coffee, thus exposing it to changes in weather and price fluctuations in the world, avers Assefa (2015).

Effort has been geared towards diversifying Ethiopia's export market in recent years. The World Bank (2020) discovers that a gradual transformation of the structure of trade has been an outcome of the government's focus on the growth of non-traditional exports such as textiles,

leather products, and flowers. Foreign direct investment and industrial parks have been a key part of this diversification, leading to increased export revenues and employment.

## **ii. Key Sectors Driving Trade Growth**

The economy of Ethiopia remains predominantly reliant on agriculture, which increases GDP and employment. However, manufacturing, particularly the garment and textile industry, is among the significant drivers of the growth of trade. Being a key African industrial production hub is the aspiration of the Growth and Transformation Plan (GTP). UNIDO (2018) holds the belief that investments in industrial parks and special economic zones have aided the development of the manufacturing sector.

Significant development has also taken place in the services sector, especially in the fields of telecommunications and tourism. The telecommunication liberalization has raised exports in services by encouraging the establishment of digital services and connectivity, as stated by Addis (2019). There are also sufficient opportunities to expand trade and enhance market access because of the nation's location and accession into regional trade agreements such as the African Continental Free Trade Area (AfCFTA).

## **iii. Impact of Regional and International Trade Agreements**

Ethiopia's market access and trade policy have been significantly influenced by its membership of regional and international trade agreements. Tadesse and Fayissa (2020) argue that by reducing tariffs, streamlining the regulations, and improving trade facilitation measures, regional trade agreements such as COMESA and AfCFTA can increase the level of Ethiopia's trade. Ethiopia stands to benefit enormously from accession to the World Trade Organization (WTO), such as enhanced market access and foreign direct investment. WTO (2021) underscores the relevance of WTO membership in promoting trade liberalization as well as economic diversification.

### **2.1.2 The Role of Capital Markets in Trade Facilitation**

Capital markets rely on the mobilization of savings, investment facilitation, and economic growth. Healthy capital markets have their theoretical foundations laid out by Beck et al. (2009) and are demonstrated through the relationship between healthy capital markets and better trade

balance. Shares, bonds, and derivatives are some of the financial instruments that capital markets provide to assist corporations in procuring capital, managing risks, and enhancing productivity (Beck, Demirgüç-Kunt, & Levine, 2009).

### **i. Theoretical Frameworks on Capital Markets and Economic Growth**

For effective capital deployment, investment, and mobilization of savings, a need for capital markets arises. Effective capital markets increase the stock of capital and refine the efficient allocation of resources, both of which have the ability to promote economic growth, according to some research. Empirical research by Beck, Demirgüç-Kunt, and Levine (2009) establishing a correlation between capital market development and economic growth is cited with respect to the contribution of financial market development to trade balance.

### **ii. Ethiopia's Capital Market Structure and Regulatory Environment**

The Ethiopian capital market is in its early stages. Among the most significant milestones towards enhancing market transparency and price discovery of principal farm products was that taken with the launch of the Ethiopian Commodity Exchange (ECX) in 2008. As Dinku, T., et al., (2021) reports, the ECX has contributed significantly to enhancing the efficiency of agricultural markets.

A key milestone in the Ethiopian capital markets was achieved with the inauguration of the Ethiopian Securities Exchange (ESX). Strong institutions and regulatory frameworks are required in order to promote capital market development, according to the African Development Bank (2022). Being the regulator of the ESX, the Capital Market Authority (CMA) is tasked with upholding market integrity, protecting investors, and developing the market.

### **iii. Comparative Analysis with Other Frontier and Emerging Markets**

Comparative studies are highlighting the likely directions and setbacks of Ethiopia's capital market development. Suitable comparators are the Lagos Stock Exchange in Nigeria and Nairobi Securities Exchange in Kenya. For the sake of igniting market development, Mwega and Ndungu (2018) focus on investor education, regulatory reforms, and technological innovations.

Another example of how capital market development is enhancing trade is that of Nigeria's Lagos Stock Exchange (LSE). The Nigerian capital market has facilitated the growth of import-

export firms by enabling them to raise long-term finance. Although tested initially, Nigerian capital market reforms have made export diversification and foreign direct investment (FDI) more profound, Mbaye and Gueye (2021) assert.

Rwanda and Vietnam also offer useful lessons. Vietnam's economic growth has been significantly facilitated by its capital market reforms and trade liberalization (Do & Levchenko, 2016). Rwanda's attempt to increase trade competitiveness and develop its capital markets offers useful models. Rwanda Capital Market Authority (CMA) has tried to facilitate market expansion through reforms of regulation and investor education campaigns (Rwangombwa, 2019).

### **2.1.3 Frontier Momentum Theory**

The development process of financial markets in emerging countries, as testified by the Frontier Momentum theory, creates a virtuous circle whose impact enhances trade and economic activity. The theory highlights how market efficiency, diversification of the economy, and financial intermediation all work to enhance trade. The theory is corroborated by the establishment of capital markets, which enhance enhanced resource allocation, reduce the cost of transactions, and enhance liquidity (Beck et al., 2000).

#### **i. Definition and Conceptualization**

Ethiopia's recent history is a better example of this premise. In an attempt to establish the basis of a robust market, in 2021, Ethiopia enacted the Capital Market Proclamation, which established the Ethiopian Securities Exchange and the Ethiopian Capital Market Authority. The program aims to establish a dynamic financial system that is able to draw on domestic savings and limit foreign debt dependence in order to counter macroeconomic imbalances such as high inflation, fiscal deficits, and a widening trade deficit (Ethiopian Securities Exchange, 2021).

Moreover, in September 2023, the Ethiopian Capital Market Authority and International Finance Corporation (IFC) collaborated for the purposes of facilitating the growth of local capital markets in the nation while enhancing access to local currency financing. It is projected that this collaboration will increase the supply and availability of capital market transactions, enhance the domestic institutional and retail investor base, and enhance the efficiency of the government securities market all of which will contribute to economic growth (International Finance Corporation, 2023).

The "Frontier Momentum" captures the dynamic link between the development of the capital market and the growth of frontier economies' trade. The markets are confronted with huge barriers to trade, including restricted access to financing opportunities and high cost of transactions, and are dominated by immature financial markets and low investor participation. Better access to capital fuels the expansion of trade, which fuels the expansion of financial markets and economic growth in a self-perpetuating cycle. As per recent studies by the African Development Bank (2023), if the capital markets can supply appropriate financing instruments, countries with less developed financial markets can enhance the level of trade and export diversification. Other than this, robust financial markets can finance available gaps of finances in the import-export sector, as identified by the Ethiopian Capital Market Authority (2024).

## **ii. Application to Ethiopia's Economic and Trade Context**

In using the "Frontier Momentum" theory for Ethiopia, it is important to examine how development in the capital market can induce change and increase trade. The rules of this theory are set with respect to Ethiopia's economic efforts to create the Ethiopian Securities Exchange (ESX) and draw capital into its capital markets. Theory argues that such programs can increase market liquidity, enhance access to finance, and facilitate risk management, all which can enhance trade growth and economic development.

The Ethiopian Capital Market Authority was mandated by Ethiopia's Capital Market Proclamation in 2021 to establish the foundation for the ESX. In the hope of reducing domestic savings mobilization and foreign debt dependence, this project aims to solve macroeconomic problems such as inflation and foreign exchange reserves depletion (Ethiopian Securities Exchange, 2021).

In addition, the Ethiopian Capital Market Authority and International Finance Corporation (IFC) collaborated in September 2023 to enhance access to local currency financing and increase the efficiency of the government securities market. The domestic institutional and retail base of Ethiopia is expected to expand directly as a consequence of this collaboration, stimulating capital market participation and economic development (International Finance Corporation, 2023).

## **iii. Research Gaps**

However, there are a few areas left for the potential body of evidence on capital markets and

trade. It needs to be researched further empirically how exactly the mechanisms through which capital markets have an impact on frontier economy trade work. More work has to be undertaken to quantify how technology innovation such as biotech and block chain can enhance trade interconnectedness and enhance the efficiency of capital markets. Policymakers and practitioners have much to learn from examining the experience of other frontier markets.

#### **2.1.4 Institutional Factors and Trade balance**

Institutional theories emphasize the role of governance and regulatory settings in maintaining trade balance in check (Rodrik, 2018). Efficient institutions minimize inefficiencies, simplify bureaucratic procedures, and increase investor confidence. Capital markets would need to be implemented effectively in Ethiopia by having an efficient regulatory environment (Senbet & Mekonnen, 2018).

##### **i. Role of Institutional Factors in Trade balance**

In detailing institutions' role in trade balance, Rodrik (2018) points to the need to have stable financial institutions in order to ease trade. As the study observes, countries with robust financial systems such as strong capital markets possess diversified export portfolios and higher levels of trade. This affirms how Ethiopia's strategy to enhance the trade balance has to incorporate the rebuilding of its financial institutions.

Literature review places into context the intricate interaction between trade balance and capital market development, particularly in emerging and frontier markets like Ethiopia. Academic work is always pointing towards how deep and broad financial markets can foster diversification of exports, economic growth, and trade efficiency. For instance, International Finance Corporation (2023) points to the importance of local currency finance in enhancing trade competitiveness, whereas Beck et al. (2021) assert that capital markets facilitate mobilization of funds and management of risk. To bring efficient development and integration of the market, research also points to the importance of having robust institutional capacity and regulation systems.

#### **2.1.5 Trade Balance (Import-Export)**

Among the theories in macroeconomics and trade, some consider trade balance, an integral part of international economics. The Balance of Payments Theory presents that trade balance is influenced by the proportion between national investment and savings (Krugman & Obstfeld,

2022). The Comparative Advantage Theory (Ricardo, 1817) asserts that nations should specialize in producing low-cost products because this explains the trade balance. Furthermore, the Marshall-Lerner Condition explains the depreciation of currency increasing the trade balance when aggregate price elasticity of imports and exports is more than one (Mankiw, 2023). These theoretical stands illustrate the difficulties of controlling the trade balance and its relevance to national economy stability.

Evidence of factors that influence trade balance and their relationship with financial development exists through empirical facts. Maturity in capital markets plays an influential role towards enhancing the trade balance through enabling companies to access finance towards export expansion, as recently captured by the World Bank in research during 2023. As per a report by the IMF in 2022, only those developing nations with a sound finance sector have less trade deficit. Additionally, as seen from Nguyen et al. (2021), countries of good capital markets enjoy higher export growth rates, and therefore long-run trade surpluses. Trade imbalance has been a real concern in Ethiopia, as noted by the National Bank of Ethiopia (2023), and emphasizes that foreign exchange controls and financial market integration are impediments to trade balance improvement.

Quantitative techniques are vital in measuring trade balance since they bring together the measurement of trade volume and value. Trade balance is particularly measured by calculating net exports, which are the difference between imports and exports. Exports are higher than imports when a trade surplus is formed, resulting in the inflow of foreign currency that drives economic development and stability (Krugman & Obstfeld, 2022). Conversely, a trade deficit results when there are more imports than exports, potentially reflecting structural inefficiencies and the need for external funding (Mankiw, 2023).

The applicability of monitoring changes in trade balance to gauge the well-being of the economy has been rendered more applicable by recent works. A persistent trade deficit, say, could be a result of overdependence on imports and suboptimal exchange rate arrangements, while a persistent trade surplus could be an indication of strong production and export performance (World Bank, 2023). To improve trade balance and economic feasibility, policymakers can discern trends and adopt policy interventions through the use of econometric models and trade volume analysis.

## **2.2 Reviews on Determinants of Trade Balance**

### **2.2.1 Capital Market Development**

Development of the capital market is crucial in the development of economics and improving trade balance. Efficient capital markets, as Financial Market Theory suggests, make the trade more effective with alternatives in investment, lower transaction costs, and higher liquidity (Mishkin, 2020). The Efficient Market Hypothesis (Fama, 2021) posits that it becomes simpler to allocate resources through capital markets, consequently resulting in improved trade balance.

Empirical data validate the constructive function of capital market development in trade. Levine and Zervos (2022) confirmed that nations with better-developed capital markets have greater volumes of trade, and better trade balances. Likewise, the African Development Bank (2023) reports that Ethiopian capital market reforms will enhance the country's trade competitiveness via greater access to capital for exporters.

### **2.2.2 Access to Financing**

The Financial Constraint Theory relies on the reality that the lack of access to finance restricts trade balance through the inhibition of companies from increasing export-oriented production (Stiglitz & Weiss, 2021). Trade Credit Theory also explains that access to finance is critical in international trade due to the ability of firms to cover risks and sustain business (Baldwin, 2016). Empirical realities indicate that access to finance has a direct impact on trade balance. As World Bank (2022) holds, nations with higher access to trade credit record greater export growth. Likewise, studies in emerging markets put estimates on more intense finance reducing competitiveness among businesses in international markets (Levine, R., 2025)).

### **2.2.3 Foreign Direct Investment**

Foreign Direct Investment (FDI)-driven Growth Hypothesis believes that foreign investment drives economic productivity, which further increases exports and decreases trade deficits (Dunning, 2020). Endogenous Growth Theory also maintains that FDI increases technology transfer and industrialization, thus improving trade balance (Romer, 2021). Empirical facts affirm the FDI-trade balance direct connection. Higher FDI inflows into nations, as per UNCTAD (2023), result in better trade surpluses with better industrial production. FDI inflows

into Ethiopia, as per the National Bank of Ethiopia (2023), hold potential to decrease import dependence by boosting domestic output.

#### **2.2.4 Trade Infrastructure Development**

The Infrastructure-Led Trade Growth Model takes advantage of the fact that investments in transport, logistics, and port investments lower trade costs and enhance the profitability of exports (Venables, 2020). The Gravity Model of Trade proposes that bilateral trade enhances with improved infrastructure and reduced transaction costs (Anderson & van Wincoop, 2021). Recent research emphasizes the very significant influence of infrastructure in improving trade balance. A report by the World Economic Forum in 2023 established that African countries that have effective trade infrastructure have more exports and lower trade deficits. The study by the Ethiopian Ministry of Trade in 2023 confirms that inadequate logistics remain Ethiopia's trade competitiveness issue.

#### **2.2.5 Exchange Rate Stability**

The Purchasing Power Parity (PPP) Theory argues that stable exchange rates facilitate trade by ensuring price competitiveness in global markets (Krugman & Obstfeld, 2022). The Dornbusch Overshooting Model argues that exchange rate volatility affects trade flows and raises the uncertainty of transactions (Dornbusch, 2021). Empirical results support the stability of exchange rates-export balance relationship. IMF (2023) discovered that nations with stable exchange rates record higher export growth. Likewise, a study by Gopinath (2022) indicates that currency depreciation enhances trade balance only when accompanied by structural policies.

#### **2.2.6 Trade Policy and Tariff Structure**

The Theory of Commercial Policy describes that tariffs, quotas, and trade agreements determine trade balance (Bhagwati, J. N., 2002). The Optimal Tariff Theory posits that governments can strategically use tariffs to defend home industries at the expense of trade competitiveness (Johnson, 2021). Empirical literature indicates that trade policies determine trade balance. WTO (2023) claims that nations with highly structured tariff policies possess improved trade balance. Ethiopia's current trade policy reforms, as examined by the Ministry of Trade (2023), are promising in trimming trade deficits through export diversification.

### **2.2.7 Foreign Currency Availability**

Balance of Payments Theory presumes foreign currency reserves are essential in smoothing imports and exports (Mundell, 2021). The Theory of Liquidity Preference explains shortages of foreign currency cause trade imbalances because it is challenging to finance imports (Keynes, 2020). Empirical evidence confirms foreign currency availability in ensuring trade stability. Foreign exchange deficits in developing nations are found to be associated with rising trade deficits, according to African Development Bank (2023) research. Foreign currency concerns in Ethiopia, as indicated by the National Bank of Ethiopia (2023), still restrict importing capacity and influence trade balance in a negative way.

## **2.3 Empirical Reviews**

### **2.3.1 Empirical Evidence on Ethiopia's Trade Balance**

Research identifies that the Ethiopian trade sector is constrained by factors such as restricted access to funding, logistical inefficiency, and regulatory hindrances. Reports by the African Development Bank (AfDB, 2019) identify infrastructure shortcomings in the form of subpar road conditions and poor port facilities as major limitations to efficient trade (African Development Bank, 2019). Moreover, using traditional customs restricts scalability and competitiveness.

### **2.3.2 Empirical Evidence on Capital Markets' Role in Trade**

Evidence shows that the capital markets also play a critical function in improving trade balance. As per the study by Beck, Levine, and Loayza (2000), nations with developed capital markets have higher levels of trade volumes and export diversification (Beck, Levine, & Loayza, 2000). Kenya and Nigeria, for example, have used their capital markets to drive foreign investment, export diversification, and ease financial bottlenecks (Mwega & Ndungu, 2018).

Reforms in capital markets in emerging economies such as Vietnam and Rwanda have resulted in improved trade and economic growth (Do & Levchenko, 2016; Rwangombwa, 2018). These markets facilitate finance, lower the cost of transactions, and offer risk management mechanisms such as hedging against currency and futures contracts, allowing firms to deal with uncertainty in the world market.

### **2.3.3 Lessons from Other Frontier Markets**

Vietnam and Rwanda experiences are traditional examples of the potential for transformation of capital markets. Accession to the global capital markets and liberalization of trade has greatly stimulated export growth in Vietnam (Do & Levchenko, 2016), while Rwanda's focus on investor education and reforms has increased market participation (Rwangombwa, 2018). These experiences are lessons for Ethiopia to build its own capital markets.

### **2.3.4 Institutional Readiness and Stakeholder Perceptions**

Empirical data stress institutional preparedness for capital market development. Mekuria (2021) identifies regulatory loopholes and low awareness of the stakeholders as the main challenges for Ethiopia. Financial literacy and public-private partnerships are required in establishing an environment that would be supportive of capital markets.

### **2.3.5 Linkages between Capital Markets and Trade**

#### **i. Review of Empirical Studies on Capital Markets and Trade Balance**

Empirical findings exhibit intricate relations between trade balance and capital markets. Capital markets are needed in order for trade to increase as per some journal papers since they offer adequate financial infrastructure for companies to undertake international trade. Love (2003) and Manova (2013) exhibit empirical results on the role played by capital market development on the volume and diversity of trade.

A current AfDB (2021) survey revealed that African capital markets, such as the Ethiopian market, can potentially drive trade by considerable magnitudes by offering needed financial infrastructure and lowering the cost of capital. Capital markets make trade possible through the availability of finance options, liquidity, and risk management capabilities.

#### **ii. Mechanisms through Which Capital Markets Impact Trade**

Capital markets have an effect on trade in a number of ways. Beck, Levine, and Loayza (2000) show that highly developed capital markets are associated with high trade and export diversification in countries. Capital markets increase access to finance, make risk management easier, and increase market transparency and price discovery.

### **iii. Case Studies of Other Countries with Similar Economic Profiles**

Other nations with similar economic profiles provide learning lessons to Ethiopia. The capital market reforms and the liberalization of the trade by Vietnam have been at the vanguard of its economic change (Do & Levchenko, 2004). The drive to enhance capital market development and trade competitiveness by Rwanda are lessons that can be learned by Ethiopia. Rwanda's Capital Market Authority (CMA) has implemented measures set to drive market growth, such as investor education programs, regulatory changes, and advances in technology (Rwangombwa, 2018).

### **2.3.6 Recent Advances in Capital Markets and Trade**

#### **i. Role of Financial Instruments and Intermediaries**

Menya (2021) analyzes the evolution of African capital market financial products and their contribution to economic growth and facilitating ease in trade. The research informs on the effectiveness of different financial products in mobilizing investments. Menya argues that the financial instruments, such as bonds, equity, and derivatives, are crucial in offering the liquidity and risk management services that supplement the trade and investment in the emerging markets.

#### **ii. Impact of Capital Market Interventions on Trade Efficiency**

Beck, Levine, and Loayza (2000) contend that reforms in capital markets enhance the level of trade and diversification by encouraging an efficient allocation of financial resources. The reforms enhance the capacity of firms to participate in foreign trade by raising the availability of credit and lowering the cost of financing fees, thereby enhancing overall trade balance.

#### **iii. Comparative Analysis with Other Frontier Markets**

Mbaye and Gueye (2021) analyze the trends in the Sub-Saharan African financial market with a learning curve for Ethiopia. They set best practices and problems that other regional countries have experienced, and an experiential view that can inform Ethiopia in charting its financial market.

### **2.3.7 Policy Implications and Strategic Recommendations**

#### **i. Policy Implications of Capital Market Interventions in Trade**

Beck and Cull (2013) observe the importance of policymakers giving priority to ensuring an enabling regulatory environment that supports the development of capital markets as well as integration in trade. Strategic suggestions involve summoning for the facilitation of public-private partnerships, enhanced financial literacy, and implementing regulatory reforms to ensure the successful integration of capital markets in the trading market. Desta and Tegegne (2022) are also interested in policy interventions that can boost the capital markets' role on trade in Ethiopia, placing especial attention on regulatory frameworks, institutional growth, and market infrastructure.

#### **ii. Financial Market Development and Economic Growth**

Levine (2020) identifies the linear relationship between financial market development and economic growth. The analysis depicts how high-level capital markets result in efficient resource allocation, boosted investment, and greater productivity, all of which aggregate to improve trade balance. The evidence supports the hypothesis that capital market integration has the potential to ensure impressive improvement in trade efficiency and competitiveness of Ethiopia.

#### **iii. The Evolution of Trade Finance**

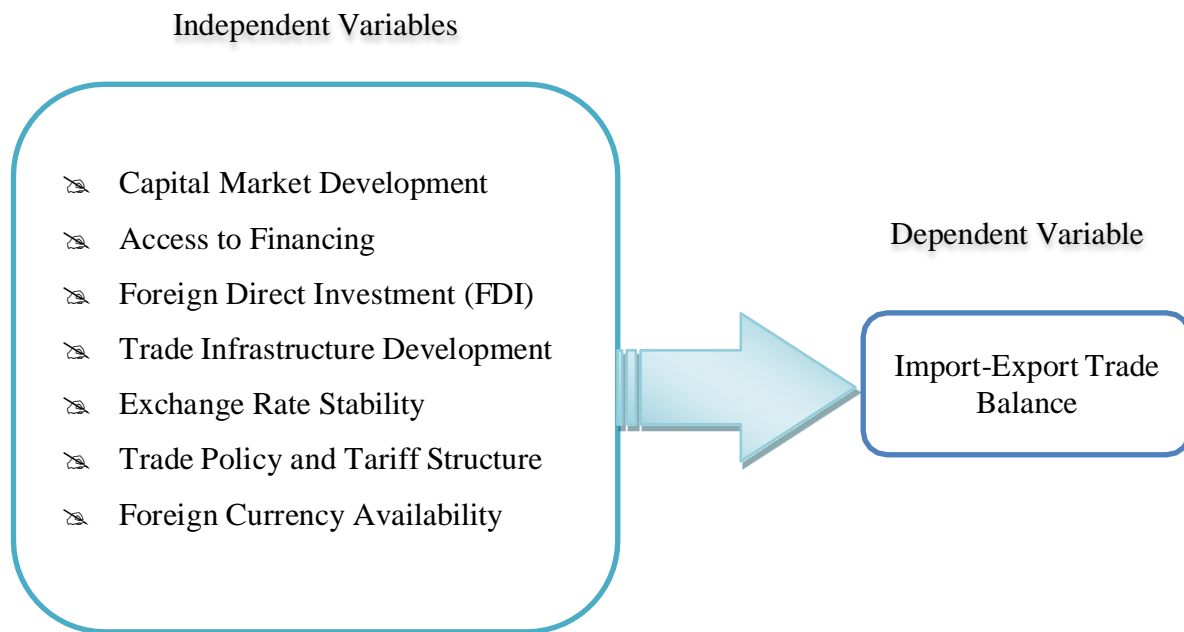
Auboin, M., & DiCaprio, A (2016) elaborates that trade finance has changed immensely with the growth of capital markets. New financial products like trade credit, letters of credit, and supply chain financing have improved trade procedures and minimized risk. All this change has helped emerging economies tremendously by offering them the tools they need to participate in international trade more effectively.

## **2.4 Conceptual Framework**

This theoretical research framework combines Frontier Momentum Theory with country-specific Ethiopian trade dynamics (Beck et al., 2000). It holds that capital market development (e.g., bond and securities markets) improves trade balance indirectly through seven key determinants: access to financing, inflows of foreign direct investment, modernization of infrastructure, stability in the exchange rate, efficient trade policy, availability of foreign currency, and risk management facilities. Institutional quality (governance quality, regulation) and regional integration

(AfCFTA) promote such linkages (Senbet & Mekonnen, 2018; Tadesse & Fayissa, 2020).

The structure determines catalytic cycles of feedback that enhance the export competitiveness and import efficiency by inducing domestic savings as well as foreign investment through capital markets. Ethiopia's economic change is supplemented with an auto-reinforcing mechanism referred to as "frontier momentum," which arises from trade leadership as well as financial market deepening (African Development Bank, 2023; Ethiopian Capital Market Authority, 2024).



**Figure 2.1:** Conceptual framework of the study (**Source:** theoretical and empirical reviews)

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter describes the research design and method, definition of the target population, census method, data collection strategy, and further details on the methodology of data analysis and processing. It also raises an eye to model specification, reliability and validity of the data collection instrument, and ethical considerations for data collection.

#### **3.2 Research Approach**

The research uses a quantitative research approach to give an objective analysis. The quantitative component involves empirical investigation, and econometric models are used in quantifying and analyzing the relationship between capital market growth and trade balance. This method is intended to determine dominant trends, patterns, and statistical relationships among the variables, giving firm numerical ground for comprehending their interaction.

#### **3.3 Research Design**

The research employed descriptive and explanatory research designs in a bid to establish a wide-based examination of Ethiopia's export-import dominance as well as how capital markets influence import-export balance of trade. The design is particularly well-suited for the purpose of the research in that it facilitates in-depth case examination while establishing a firm foundation of the interdependencies in major variables.

#### **3.4 Sources of Data**

The research utilized primary and secondary data to offer comprehensive analysis of the influence of the capital markets' development on Ethiopia's trade balance. Primary data were collected using structured questionnaire surveys from policymakers, financial intermediaries, business executives, and trade experts, providing first-hand information on the effect of the capital markets on trading. On top of this, secondary data have been obtained from financial reports and trade statistics released by institutions like the National Bank of Ethiopia, Ethiopian Commodity Exchange, World Bank, International Monetary Fund, and other involved institutions. The secondary datasets have been offered past and background information, from which trends and patterns have been

determined, making the study more robust and deeper.

### **3.5 Population and Sampling Techniques**

The research had a population of financial institutions, policymakers, and import and export business organizations in Ethiopia, which portrays various stakeholders, involved in the financial and trade sector. Out of the population, 200 respondents were chosen to provide an improved power to the analysis. This sample comprised of members from financial institutions, government organizations, and private companies who were actually involved in trade so as to have an unbiased sample of the effect of capital market development.

Purposive sampling was applied in the research since it is not possible to identify how many individuals are engaged in Ethiopia's capital market and trading sectors. To ensure respondents have firsthand experience of or direct engagement in financial regulation, capital market development, or import-export trade, the approach was applied. In addition, snowballing was used to expand the scope of responses, whereby initial participants nominated other potential individuals, that is, special institutional and regulative incumbents.

### **3.6 Data Collection Instrument**

In this study, primary and secondary data collection tools were utilized to facilitate in-depth analysis. The primary data were gathered through questionnaire instruments that were delivered to primary stakeholders such as policymakers, financial institutions, and business entrepreneurs who conduct business in Ethiopia's import-export sector. The questionnaires addressed quantified perceptions of trade balance, availability of finance, regulatory efficiency, and inclusion in the capital market.

Besides, the questionnaire and survey method has been utilized for specific reasons in order to get trade balance data. Trade balance is possible with the aid of structured questionnaires along with secondary data. The technique allows it to get first-hand data from key stakeholders such as legislators, business officials, importers, and exporters (World Bank, 2023). This method supplements the provision of trade balance analysis coverage through gathering data on market conditions, finance, and trade barriers (International Trade Centre, 2021).

### 3.7 Description of Variables

The variables employed in this research have been selected with utmost caution such that they reflect the aims, questions, and topic of research. These variables attempt to depict the forces behind the balance of trade of Ethiopia, particularly import-export balance of trade and capital market growth.

#### 3.7.1 Dependent Variable

**Import-Export Trade Balance:** This is acting as the most important trade performance metric of Ethiopia. The trade balance has been assessed by using past trade statistics (export and import values) found in databases like the National Bank of Ethiopia, World Bank, and Ethiopian Ministry of Trade and Industry. It can also be quantified using the 5-point Likert scale, which possesses several strengths (Joshi, A. et al., 2015, World Bank, 2023, International Trade Centre, 2021, IMF, 2023, WTO, 2024, OECD, 2025, National Bank of Ethiopia, 2023, African Development Bank, 2023).

#### 3.7.2 Independent Variables

1. **Capital Market Development:** Financial Sector Development Indicators: Measures of financial institutions and markets, including stock market liquidity and investment flows ([World Bank, 2023]).
2. **Access to Financing:** World Bank Enterprise Surveys: Measures access to financial services, including percentage of firms with a line of credit or loan ([World Bank, 2022]).
3. **Foreign Direct Investment (FDI):** Determinants of FDI: Market size, labor cost, infrastructure, trade openness, and political stability as key factors ([Sethi et al., 2023]).
4. **Trade Infrastructure Development:** Logistics Performance Index (LPI): Assesses infrastructure quality, customs efficiency, and logistics competence ([World Bank, 2023]).
5. **Exchange Rate Stability:** BIS Studies on Exchange Rate Flexibility: Impact of exchange rate flexibility on economic stability in emerging markets ([Bank for International Settlements, 2022]).
6. **Trade Policy and Tariff Structure:** World Trade Organization (WTO) Reports: Annual reviews analyzing trends in trade policies and tariff structures ([World Trade Organization, 2024]).

**7. Foreign Currency Availability:** OECD Reports on Local Currency Financing: Role of foreign exchange markets in economic stability and trade balance ([OECD, 2025]).

### **3.8 Data Processing and Analysis**

Statistical techniques used in data analysis were both descriptive and inferential. Descriptive analysis was complemented the nature of the data by using measures like mean, standard deviation, and frequency distributions. The temporal trend of Ethiopia's trade balance was also displayed using graphical models. Inferential statistical analysis, such as regression analysis, has been used to investigate the effect of capital market development and other independent variables on trade balance. The research carried out robustness checks to test the reliability, such as multicollinearity tests using variance inflation factor (VIF) and residual diagnostics to test the assumptions of the regression.

### **3.9 Model Specification**

The study was adopting a multiple linear regression analysis to determine the impact of various explanatory variables on Ethiopia's trade balance. Multiple regression is a statistical tool that characterizes the relationship between a dependent variable and multiple independent variables. In this context, the regression analysis was evaluated the effects of twelve independent variables, identified as key determinants, on trade balance. The following regression model has been applied to quantify and assess these relationships (Parks et al., 2010):

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \varepsilon$$

Where:

Y = Dependent variable (Trade Balance (Import-Export))

$\beta_0$  = Intercept (constant term),  $\beta_1$  to  $\beta_7$  = Coefficients of the independent variables, indicating the strength and direction of their effect on trade balance.

$X_1$  to  $X_7$  = Independent variables listed under the above description of variables

$\varepsilon$  = Stochastic term or the error of estimation, accounting for unexplained variation.

This regression analysis was designed to find out the effect of every independent variable on trade balance variation and explain their relative significance and effect. The research was also testing traditional linear regression assumptions to determine the validity and reliability of the findings. The results were informing policymakers and stakeholders where to direct interventions in order to improve Ethiopia's trade balance and maximize the benefits provided by the

development of a capital market.

### **3.10 Validity and Reliability**

Validity and reliability are critical to ensuring the accuracy and consistency of the data collected in this study, which examines the impact of capital market development on Ethiopia's trade balance.

**Validity** is the degree to which the data collection tools are able to capture what they are meant to capture. In this research, validity entailed coming up with the questionnaire that is aligned with the research goals so that it captures related information on variables like access to capital, liquidity, risk management tools, and other variables that affect trade balance. The questionnaire was also carefully analyzed to ensure that it reflects the goals of the study in a holistic manner, with information drawn from a credible literature review as well as inputs from experts in the trade sector and capital markets. Thus, the information obtained truly portrays what is being studied.

**Reliability** is consistency and steadiness of the measurements used to examine the relationship between variables (Ghauri & Grønhaug 2005). Reliability was ensured for the questionnaire by carefully crafting it utilizing the research objectives, problem statement, and theories relevant. The questions were crafted in a way that would address the determinants of trade balance as they were identified: technological development, cooperation among stakeholders, and economic stability. The systematic approach helps ensure that there are uniform responses and that measurement can be replicated.

The researcher designed the questionnaire specifically to meet the needs of the study, ensuring it measures exactly what it is intended to measure. This approach is further supported by a comprehensive literature review and a detailed understanding of the study area. By grounding the questionnaire in established theories and aligning it with the study's conceptual framework, the research ensures that the findings are both valid and reliable, providing robust insights into the interplay between capital market development and Ethiopia's trade balance.

**Table 3.1: Reliability Statistics**

<b>Construct</b>	<b>No of Items</b>	<b>Cronbach's alpha</b>
Import-Export Trade Balance	8	.871
Capital Market Development	7	.842
Access to Financing	7	.921
Foreign Direct Investment (FDI)	7	.775
Trade Infrastructure Development	7	.874
Exchange Rate Stability	7	.911
Trade Policy and Tariff Structure	7	.905
Foreign Currency Availability	7	.779

**Source:** Survey data result, (2025)

Generally, as it can be seen from table 3.1 above, the Cronbach's alpha coefficients that were determined for each questionnaire component ranged from 0.775 to 0.921, suggesting good reliability for each section.

### **3.11 Ethical Consideration**

In this research, ethical issues have been addressed adequately in a bid to safeguard and show respect to all the participants. The researcher makes sure that the questions raised during the data collection process do not include physical or emotional harm and ask voluntarily for the participation of the participants before commencing the research. Consent has been received from influential stakeholders, such as financial institutions, policymakers, and business executives, with the strongest possible stress on the voluntary nature of their involvement. Confidentiality has been ensured throughout the research, and all the information gathered is being employed for purely academic purposes alone.

The researcher also honors participants' requests by keeping all personal identifiers out of data. In following such ethical procedures, the research upholds the integrity and trust of participants as well as protects their privacy and ultimately ensures findings in research are valid and carried out with utmost respect for individuals involved.

## CHAPTER FOUR

### DATA ANALYSIS AND DISCUSSIONS

This chapter present the data gathered from respondents via a questionnaire pertaining to explore the potential role of capital markets in enhancing Ethiopia’s trade balance, particularly in enhancing import-export trade balance.

#### 4.1 Response Rate of the Study

The percentage of completed and returned questionnaires out of all those given to respondents is known as the response rate. 200 questionnaires were given out to participants in this study, and all 200 of them filled them out and sent them back, yielding a 100% response rate that is adequate for additional data analysis.

#### 4.2 Demographic Characteristics

Understanding the demographic characteristics of the respondents is crucial for interpreting the study's results. This section analyzes variables such as Gender, Age, Education, Occupation, Marital Status, Experience, and Sector of the respondents summarized in Table 4.1 below.

**Table 4.1:** Demographic Characteristics of Respondents

Demographic profile	Categories	Frequency	Percentage
<b>Gender</b>	Male	122	61.00
	Female	78	39.00
	<b>Total</b>	<b>200</b>	<b>100.00</b>
<b>Age</b>	18 – 25	21	10.50
	26 – 35	53	26.50
	36 – 45	65	32.50
	46 – 55	32	16.00
	56 & above	29	14.50
	<b>Total</b>	<b>200</b>	<b>100.00</b>
<b>Education Level</b>	High School	16	8.00
	Diploma/Certificate	38	19.00
	Bachelor’s Degree	92	46.00
	Master’s degree and Above	54	27.00
	<b>Total</b>	<b>200</b>	<b>100.00</b>

<b>Occupation</b>	Investor	16	8.00
	Trader	62	31.00
	Policy maker	37	18.50
	Financial Institution	58	29.00
	Others	27	13.50
	<b>Total</b>	<b>200</b>	<b>100.0</b>
<b>Experience</b>	Less than 1 year	13	6.50
	1 – 5 years	63	31.50
	6 – 10 years	81	40.50
	Over 10 years	43	21.50
	<b>Total</b>	<b>200</b>	<b>100.00</b>
<b>Sector</b>	Agriculture	33	16.50
	Manufacturing	53	26.50
	Services	40	20.00
	Trade	65	32.50
	Other	9	4.50
	<b>Total</b>	<b>200</b>	<b>100.00</b>

**Source:** Survey data, 2025

Based on the gender response distribution in the above table, 39% of the respondents are female and 61% of the respondents are male. Both trade and financial sector stakeholders in Ethiopia are disproportionately male, which may be reflective of more general gender imbalances in financial market access and economic participation. Since the importance of such broad-based economic growth in driving development, this mismatch on a gender divide basis would thus imply that promoting and enabling higher participation by women in trade and capital markets should become the defining aspect of policy and capacity-building initiatives in the future.

Aside from that, when it comes to the age range of the respondents, the majority of around 57% of the sample belonged to the age group 26–35 (26.5%) and 36–45 (30.5%). This shows that most of the participants fall within the ages regarded as being most productive in their working careers and economies. In the areas of import-export and capital market usage decision-making, and financial deal-making as well as business operations, these age groups will be significantly engaged. Relatively lower levels of involvement or control in the mentioned areas are noted by

comparatively low percentages of young (18–25) and elderly (56 and above) age groups.

The output indicates that close to three-quarters of the respondents are in possession of tertiary education, where 46% of the respondents possess a bachelor's level and 27% possess a master's level or above. This shows that conclusions may possibly be representative of views from people with advanced analytical ability and knowledge of financial systems that would be appropriate for the study. Professionally or vocationally trained experts are likely to fall under the Diploma/Certificate category (19%), while the very small percentage of individuals with only a high school diploma (8%) would lead one to believe that less formally trained constituents may not be quite as well covered.

Professionally, financial institution representatives (29%) and merchants (31%) constitute the largest proportion of the respondents. Because these two are engaged in active transactions, financing, and practically in dealing with the market directly, this aligns with the intent of the study to be at the intersection of capital markets and trade. 8% of the respondents of the survey are investors representing the investment side of capital market development, 18.5% are the policy makers, providing the regulatory and institutional point of view. The remaining 13.5% belong to professional groups, whose contribution makes the study more comprehensive in nature.

As far as professional experience presented on the table above is concerned, the majority of the respondents have great experience in their profession. Out of those who have experience, approximately 40.5% of them have 6 to 10 years of experience, 21.5% more than 10 years, and 31.5% between 1 to 5 years. Only 6.5% of the respondents had less than a year of experience. This means that most respondents are people with long years of experience in trade and capital market business.

Representation of respondents' business sectors is reasonably diversified in which 16.5% is agriculture, 26.5% is manufacturing, and trade holds the highest percentage (32.5%). There are twenty percent services and four and half percent other than the aforementioned. As based on the views of stakeholders of import-dependent as well as export-oriented industries, this distribution aids in achieving the study objectives. Thus, the present study can be depicting diversified set of economic activities, driven by capital market development that is assured due to the inclusion of respondents belonging to the farm sector and service sector.

### 4.3 Current State of Import-Export Trade Balance

The following data were gathered for analyzing the current state of import-export trade balance as an additional input for the study indicating multiple selections for more identification.

**Table 4.2:** The main challenges, potential benefits & measurement required

Challenges, Benefits & Measurement	Variables	Selected	Percentage
The main challenges faced in import-export activities	Financing	118	59.00
	Infrastructure	132	66.00
	Regulatory Issues	99	49.50
	Market Access	86	43.00
Potential benefits from capital markets	Access to finance	160	80.00
	Risk management	136	68.00
	Investment attraction	118	59.00
Additional measures that are required to prepare for capital markets	Policy reform	143	71.5
	Stakeholder awareness	115	57.5
	Infrastructure development	101	50.5

**Source:** Survey data, 2025

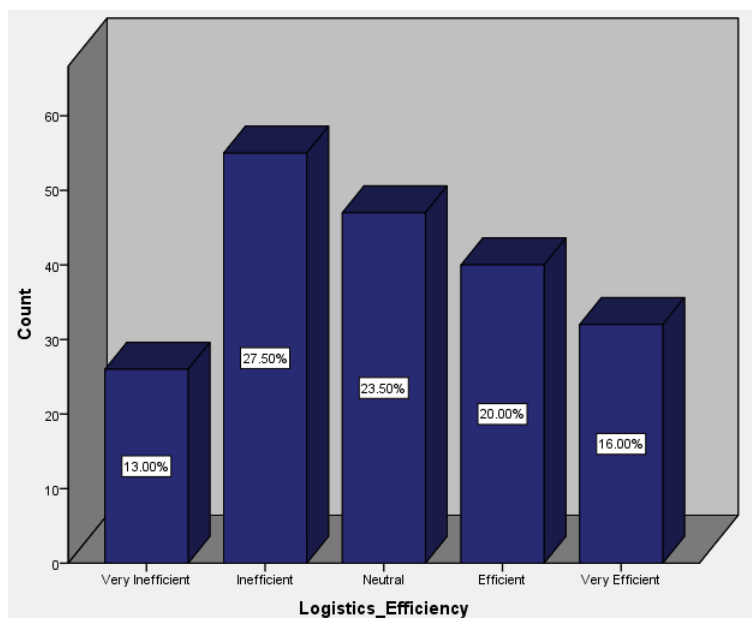
The results of the survey, as observed in above output table 4.2, mirror vital new evidence regarding the barriers, anticipated benefits, and strategic priorities that affect Ethiopia's import-export balance of trade vis-à-vis the development of the capital market. Infrastructure was the largest problem, 66% of the surveyed saying it was a barrier to the effectiveness of trade. Systemic imperfections in port terminals, logistics networks, and transportation infrastructures are acknowledged here, increasing the cost of business and reducing the competitiveness of Ethiopian exports across international markets. Following infrastructure, 59% of the interview participants indicated that market access restriction was a key constraint, thereby suggesting that businesses had limited access to affordable credit. In addition, regulatory intricacies (49.5%) and market access restrictions (43%) acknowledge trade barriers and administrative inefficiencies.

Furthermore, in reference to the potential benefits of capital markets, 80% of the respondents gave access to finance as most anticipated, replicating the common perception that capital markets can bridge the funding gap with a wide range of instruments. Secondly, 68% of the respondents identified risk management as a significant benefit, anticipating instruments such as

derivatives and hedging tools to hedge against market risk and exchange rate fluctuations. The high ranking of investor appeal (59%) also mirrors the expectation that capital markets will attract foreign and domestic investment to improve the trade climate in Ethiopia.

Policy reforms were given top priority by the respondents (71.5%) in preparation for capital market integration, emphasizing the need to develop strong regulatory frameworks to promote institutional stability, investor protection, and market transparency. Stakeholder awareness (57.5%) was the dominant indicator, indicating the necessity of capacity-building programs and financial literacy programs in engaging companies, investors, and legislators. Though infrastructure development (50.5%) remained a top priority, institutional reform can be viewed by the stakeholders as a prerequisite for tapping improvements in physical infrastructure.

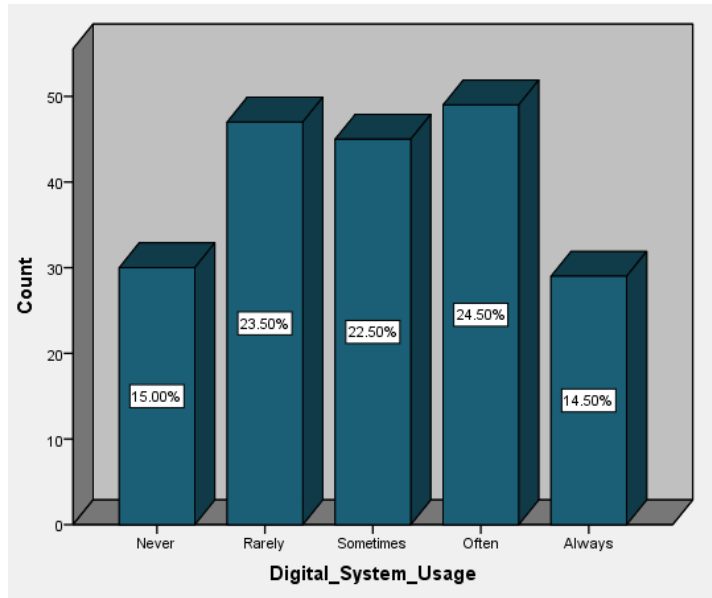
**Figure 4.1:** Bar chart display of Logistics Efficiency



**Source:** Survey data, 2025

As shown by the results of the survey in figure 4.1 above, 40.5% of the respondents (13% Very Inefficient and 27.5% Inefficient) were not satisfied with the state of the logistics infrastructure, citing such systemic issues as inefficient transport networks, congested ports, and administrative customs procedures. That 36% only of the interviewed noted that logistics were Very Efficient (16%) or Efficient (20%) indicates there have been some improvements but inefficiencies have continued. These are indicators that Ethiopia has significant problems in trading logistics efficiency.

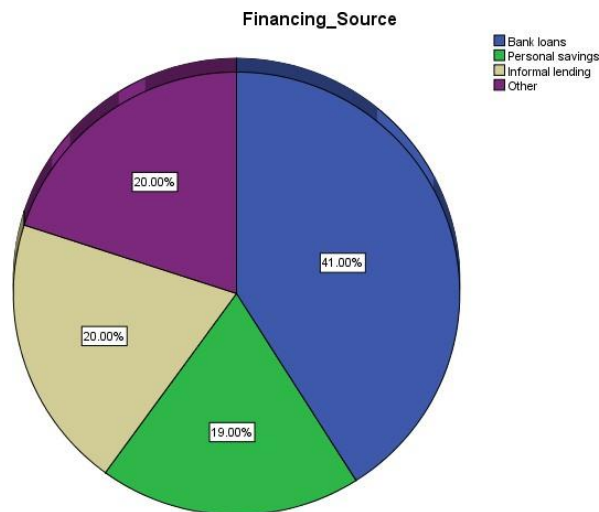
**Figure 4.2:** Bar chart display of Digital System Usage



**Source:** Survey data, 2025

The result on figure 4.2 above is that 38.5% of the respondents (Never 15% + seldom 23.5%) never or seldom utilize digital tools to trading activities, which is reflective of hindrances such as lack of digital literacy, lack of technology access, or lack of trust in electronic systems. Nonetheless, 39% (Always 14.5% + Often 24.5%) apply digital technologies frequently, whereas 22.5% apply them from time to time, as an accelerating but still infancy level of digitalization. This shows that the trade sector of Ethiopia is still adopting digital technology unevenly.

**Figure 4.3:** Pie chart of Financing Source



**Source:** Survey data, 2025

Since it was demonstrated on the above pie chart bank loans (41.1%) being the principal source of finance reflects Ethiopia's reliance on traditional credit channels, which by default exclude SMEs due to their strict collateral demands. While loan sharking (20%) and personal savings (19%) reflect formal finance access constraints that provide supporting evidence to the evidence of systemic funding constraints. The 20% reliance on external sources is another indication of the fragmentation in the financial ecosystem.

#### 4.4 Summary Statistics of Key Trade Variables

This section reports findings on each of the study variables: trade balance (import-export), development of capital markets, access to finance, foreign direct investment (FDI), trade infrastructure development, stability of exchange rates, trade policy and tariff regime, and availability of foreign currency. Findings were quantified with the assistance of a five-point Likert scale in which 1 represented strongly disagree, 2 disagreed, 3 was neutral, 4 agreed, and 5 was strongly agree.

It employed a 5-point Likert scale to measure mean ratings; greater than 4.20 suggests high agreement and 3.40-4.19 suggests agreement (Boone & Boone, 2012). Response variability was measured through standard deviation; SD greater than 1.0 suggested variety of opinions (Joshi et al., 2015).

**Table 4.3:** Thresholds to interpret mean values

Mean Range the Likert Scale	Its level of Interpretation
1.00 – 1.80	Very Low (Strongly Disagree)
1.81 – 2.60	Low (Disagree)
2.61 – 3.40	Moderate (Neutral)
3.41 – 4.20	High (Agree)
4.21 – 5.00	Very High (Strongly Agree)

**Source:** Joshi, A., Kale, S., Chandel, S., & Pal, D. K. (2015).

**Table 4.4:** Standard deviation values cut points

Standard Deviation	Interpretation
≤ 0.5	Low variability – responses are consistent
0.51 – 1.0	Moderate variability
> 1.0	High variability – responses are dispersed

**Source:** Boone, H. N., & Boone, D. A. (2012)

#### 4.4.1 Import-Export Trade Balance

**Table 4.5:** Import-Export Trade Balance Response Analysis

S/N	Trade Balance	Mean	Std.
1	Our business has experienced a positive trade balance over the last three years.	4.00	0.726
2	We successfully manage challenges related to trade deficits in our business operations.	3.83	0.779
3	Exchange rate stability significantly supports our import/export activities.	4.06	0.738
4	Our company has easy access to foreign markets for export.	3.86	0.668
5	Government trade policies positively impact our ability to trade internationally.	3.98	0.723
6	The availability of foreign currency supports our ability to import/export goods.	3.60	0.751
7	Trade infrastructure (ports, roads, and logistics) supports efficient import/export activities.	4.16	0.653
8	Our trade balance benefits from capital market availability and access to financing.	4.27	0.647
Average Mean & Standard Deviation		<b>4.09</b>	<b>0.711</b>

**Source:** Survey data, 2025

Table 4.5 presents descriptive analysis of responses of the respondents regarding trade balance performance of their organizations and various drivers of Ethiopia's trade balance in imports and exports. The mean score across all eight indicators is 4.09 with a standard deviation of 0.711, the data reveal. This indicates that the respondents have agreed in general terms that the factors listed have a positive impact on trade balance, and the ratings were relatively consistent.

Also, it is evident from this output that, the most highly rated sentence, "our trade balance is supported by capital market availability and money access," has a mean rating of 4.27 with a fairly low standard deviation of 0.647. This tells us that respondents highly concurred that development of the capital market is basic in facilitating commerce. In line with the general

thesis of the study on the evolving capability of the capital market, it stresses the experienced importance of readily accessible financial instruments and institutions to facilitate export and import operations.

The second highest mean response was 4.16 to "trade infrastructure (ports, roads, and logistics)," and 4.06, which talks about "Exchange rate stability." These reactions indicate that macroeconomic stability and good physical infrastructure are other crucial variables that explain Ethiopia's trade competitiveness.

Overall, as per the findings of this descriptive data, stakeholders are confident that Ethiopia's trade balance is strengthening in general, noting infrastructure development, currency rate stability, and access to capital markets as being significant contributors. Continuing foreign exchange controls, however, highlight the necessity of improved coordination of monetary and trade policy. These findings have merit in the notion that capital markets can play a strong role in determining the competitiveness and trade balance of the country.

#### 4.4.2 Capital Market Development

**Table 4.6:** Capital Market Development Response Analysis

S/N	Capital Market Development	Mean	Std.
1	A well-developed capital market attracts foreign investment that enhances trade.	4.50	0.567
2	Stock market growth positively affects Ethiopia’s trade balance.	4.49	0.576
3	Efficient financial markets improve trade by providing accessible investment options.	4.53	0.548
4	Capital market reforms can lead to a more balanced trade system.	4.53	0.530
5	Domestic firms benefit from capital market access to improve exports.	4.20	0.761
6	Capital market liquidity reduces trade risks and fosters economic growth.	4.21	0.684
7	Ethiopia’s capital market development is essential for long-term trade sustainability.	4.19	0.723
Average Mean & Standard Deviation		<b>4.38</b>	<b>0.627</b>

**Source:** Survey data, 2025

Table 4.6 above is a descriptive analysis of the views of respondents on how capital market growth can enhance the trade balance of Ethiopia. Since the standard deviation is 0.627 and the

general average mean score is 4.38, the majority of the respondents firmly agree that growth in capital markets is critical to the country's trade balance. In addition, the generally low standard deviation indicates that there is high response agreement and consistency.

In addition, both statements shared the highest mean score of 4.53 for the individual items. "Capital market reforms can result in an even system of trade," the statement reads, whereas "efficient financial markets enhance trade by offering easy investment opportunities." Both responses point to the overall belief that the enhancement of the efficiency of trade, investment diversification, and overall balance of the market hinges on a healthy and reform-oriented capital market structure.

The second-ranked argument that “growth in the stock market improves Ethiopia's trade balance” had a mean of 4.49, whereas the argument that stresses how capital markets can “attract foreign investment for improving trade” had a staggering mean of 4.50. Based on these findings, the respondents strongly believe that increasing the capital market such as the Ethiopian Securities Exchange, which is likely to expand, is a requirement so as to stimulate foreign direct investment and stimulate economic growth in general.

These aggregated qualitative data help to substantiate the primary hypothesis of the study, which presumes that the development of Ethiopia's capital market can significantly enhance trade balance. Beyond the recognition of the significance of capital markets, stakeholders seem optimistic about its ability to transform the way investment is being asked for, risk is mitigated, and sustainable trade is developed, as denoted by the large mean scores across all categories. This requires continued institutional capacity development, regulatory reform, and public-private partnerships in an effort to maximize the potential of financial market integration in the trade culture of Ethiopia.

### 4.4.3 Access to Financing

**Table 4.7:** Access to Financing Response Analysis

S/N	Access to Financing	Mean	Std.
1	Increased access to trade financing helps businesses expands exports.	4.45	0.556
2	Availability of trade credit encourages firms to participate in international trade.	4.39	0.538
3	Improved access to financing positively affects trade balance.	4.38	0.545
4	Banks play a critical role in facilitating trade financing.	4.39	0.528

5	Ethiopia's financial system supports businesses in securing trade finance.	4.01	0.723
6	Government intervention in financing policies positively impacts trade balance.	3.97	0.679
7	Affordable trade credit is essential for strengthening Ethiopia's trade balance.	3.94	0.706
Average Mean & Standard Deviation		<b>4.22</b>	<b>0.610</b>

**Source:** Survey data, 2025

The above descriptive study indicates that stakeholders concur in the need for financial access to enhance the trade balance of Ethiopia. Increased trade credit availability (mean = 4.39) and ease of access to trade financing (mean = 4.45) are needed to enhance exports and encourage businesses to participate in foreign trade, according to the majority of the respondents. These results are in line with the research emphasis on capital markets as a tool of resolving funding shortages since other sources of financing may alleviate reliance on constricted credit limitations and help export-oriented businesses.

The high consistency (mean = 4.39) of the present reliance of Ethiopia on traditional financial institutions in terms of the significance of banks to finance trade is reflective of this fact. The comparatively low ratings for government intervention in finance policy (mean = 3.97) and supports for the financial system of Ethiopia (mean = 4.01) reflect the perceived inefficiency of existing systems. The importance of inexpensive trade credit is recognized by stakeholders (mean = 3.94); the lower mean here reflects problems of affordability or accessibility, suggesting the need for capital markets to provide competitively priced funding vehicles. Low standard deviations (0.53–0.72) and a mean of 4.22 for all statements show that respondents overall are in agreement.

Consensus substantiates the argument of the study that the predominance of the commerce of Ethiopia is based on the improvement of its financial situation. These issues may be solved with the upgrading of capital markets by instruments of risk management, decreased borrowing rates, and diversification of funding sources. Reforms that seek to improve financial infrastructure, raise stakeholder knowledge of capital market instruments, and encourage private sector involvement must be policymakers' top agenda to realize Ethiopia's potential for trade.

#### 4.4.4 Foreign Direct Investment

**Table 4.8:** Foreign Direct Investment Response Analysis

S/N	Foreign Direct Investment	Mean	Std.
1	FDI contributes to Ethiopia's export growth.	4.28	0.594
2	Increased FDI inflows help improve trade balance.	4.30	0.583
3	Foreign investments improve Ethiopia's trade infrastructure.	4.28	0.558
4	Government policies support FDI's role in trade development.	4.27	0.571
5	FDI-driven industrialization positively affects trade balance.	3.72	0.738
6	Foreign investors support technological transfer that enhances export potential.	3.85	0.764
7	FDI plays a crucial role in Ethiopia's long-term trade growth.	3.77	0.762
Average Mean & Standard Deviation		<b>4.07</b>	<b>0.653</b>

**Source:** Survey data, 2025

The finding above shows that, with little variation across some variables, foreign direct investment is generally seen as having a beneficial effect as a trade balance driver for Ethiopia. FDI ability to enhance logistics, enhance market access, and enhance export competitiveness was apparent from high levels of agreement among respondents that it enhances export growth (mean = 4.28), enhances trade balance (mean = 4.30), and enhances trade infrastructure (mean = 4.28). Since the research focuses on institutional reforms as a propellant of trade leadership, the aforementioned high consensus on governmental policies favorable to FDI's contribution towards trade growth (mean = 4.27) also blames stakeholders' appreciation of efforts by Ethiopia to regulate in order to attract foreign capital.

On the contrary, perceptions were more subdued with respect to the contribution of FDI towards long-term trade growth (mean = 3.77), industrialization (mean = 3.72), and technology transfer (mean = 3.85). These lower mean reflect pessimism about the nature of FDI induced industrial change and technology spillovers. Divergence in perception is indicated by greater standard deviations (0.738–0.764) for these questions, reflecting ambiguity concerning the general socioeconomic spillovers of FDI.

#### 4.4.5 Trade Infrastructure Development

**Table 4.9:** Trade Infrastructure Development Response Analysis

S/N	Trade Infrastructure Development	Mean	Std.
1	Improved transport infrastructure reduces trade costs and improves competitiveness.	4.59	0.523
2	Enhanced infrastructure positively affects Ethiopia's trade balance.	4.08	0.779
3	Government investment in logistics fosters trade balance improvements.	4.05	0.739
4	Efficient ports and customs processes are essential for trade success.	4.05	0.707
5	Modern trade infrastructure expands Ethiopia's export potential.	4.04	0.728
6	Private sector participation in infrastructure development enhances trade balance.	4.14	0.766
7	Modernization of trade infrastructure leads to sustainable economic growth.	3.99	0.669
Average Mean & Standard Deviation		<b>4.13</b>	<b>0.702</b>

**Source:** Survey data, 2025

The result above indicates that there is a broad consensus among stakeholders about the necessity of developing trade infrastructure in enhancing the trade balance of Ethiopia. The road, port, and logistics network infrastructure should be upgraded straight away to reduce costs of operation and enhance Ethiopia's competitiveness in the global market. The assertion that improved transport infrastructure reduces costs of trade and increases competitiveness had the highest level of consensus (mean = 4.59). This is consistent with the prior finding within the study that one of the biggest barriers to trade efficiency is a lack of infrastructure.

Respondents also confirmed systemic problems in current trade transactions, with first priority given to government investment in logistics (mean = 4.05) and efficient ports and customs processes (mean = 4.05). A similarly high score for the involvement of private sector participation (mean = 4.14) reflects stakeholders' confidence in the public-private partnership being involved in increasing trade balance and infrastructure development. However, the moderate standard deviations of these questions (0.707–0.779) suggest some variation in opinions, and this can possibly be due to sector-specific experience or unbalanced infrastructure development across regions.

The assertion that tied up gradation of infrastructure was least agreed to be connected to long-term economic growth came in at 3.99, whereas stakeholders almost unanimously felt that upgraded modern infrastructure enhances export opportunities (mean = 4.04). This gap, perhaps

a reflection of skepticism about delay in implementation, lack of funding, or coordination with overall development plans, is one of optimistic caution towards the long-term economic spillovers of infrastructure up gradation.

#### 4.4.6 Exchange Rate Stability

**Table 4.10:** Exchange Rate Stability Response Analysis

S/N	Exchange Rate Stability	Mean	Std.
1	A stable exchange rate positively influences Ethiopia’s trade balance.	4.38	0.553
2	Currency stability creates a predictable trade environment.	3.89	0.689
3	Exchange rate policies play a crucial role in determining trade competitiveness.	3.90	0.657
4	Appropriate currency management can improve exports.	3.96	0.729
5	Ethiopia’s trade balance benefits from exchange rate stability.	3.87	0.699
6	Foreign exchanges reserves help stabilize trade flows.	3.85	0.721
7	Strong currency management supports trade growth.	3.82	0.744
Average Mean & Standard Deviation		<b>3.95</b>	<b>0.685</b>

**Source:** Survey data, 2025

The above findings indicate that currency stability is important for the trade balance of Ethiopia, although peoples' expectations are divided about its usefulness now. The sentence "a stable exchange rate has a positive effect on Ethiopia's trade balance" received most agreement (mean = 4.38), which suggests general agreement that currency stability is important in order to reduce trade risks, support credible pricing, and enhance export competitiveness. This reinforces the argument of the study that macroeconomic stability is an important component of trade dominance.

However, there also appears to be a lack of clarity regarding the prevailing exchange rate policy of Ethiopia, as evident in less solid consensus regarding such assertions as "strong currency management supports trade growth" (mean = 3.82) and "currency stability creates a predictable trade environment" (mean = 3.89). Most of the items have moderate standard deviations (0.657–0.744) indicating various stakeholder experiences were impacted by asymmetrical policy execution, exchange reserve volatility, or foreign exchange market volatility. For example, while the respondents agreed that "foreign exchange reserves help stabilize trade flows" (mean = 3.85), the relatively low score raises doubts on the adequacy of reserves or management processes.

Mean average data for 3.95 is in favor of a conservative optimistic view of the contribution made by exchange rate stability to trade balance achievement. Theoreticians recognize the virtue of stable exchange rates but are skeptical about how the policies apply in practice. This is evidence for the study's argument that capital markets, by attracting foreign capital, diversifying financial instruments, and increasing liquidity to offer protection against shocks from the external world, can be employed to aid exchange rate management.

#### 4.4.7 Trade Policy and Tariff Structure

**Table 4.11:** Trade Policy and Tariff Structure Response Analysis

S/N	Trade Policy and Tariff Structure	Mean	Std.
1	Ethiopia's trade policy framework supports balanced import-export growth.	4.32	0.581
2	Tariff structures significantly enhance Ethiopia's trade competitiveness.	3.73	0.700
3	Government trade regulations enhance the ease of doing business for exporters.	3.70	0.808
4	Appropriate tariffs on imported goods protect domestic industries and improve trade balance.	3.74	0.773
5	Bilateral and multilateral trade agreements positively influence Ethiopia's trade balance.	3.73	0.763
6	Reducing trade barriers promotes export growth and improves trade balance.	3.78	0.719
7	Transparent and stable tariff policies attract foreign investors in the trade sector.	3.61	0.750
Average Mean & Standard Deviation		<b>3.80</b>	<b>0.728</b>

**Source:** Survey data, 2025

The above finding shows that stakeholders hold differing perceptions regarding Ethiopia's tariff agreements and trade policies, where they have strengths on the policy's frameworks but weaknesses in how they are applied. Confidence in the government's direction of strategy towards trade liberalization and regional integration was expressed by the highest level of concordance (mean = 4.32) to the assertion that "Ethiopia's trade policy framework supports balanced import-export growth." It is in keeping with the institutional quality improvement focus of the study as the foundation of trade mastery.

But lower scores for government regulations making it easier to do business (mean = 3.70) and tariff regimes that make a nation's trade competitiveness superior (mean = 3.73) are indicative of policy implementation inefficiencies. As bureaucratic barriers still exist when legal frameworks

are in place, stakeholders are convinced tariffs are ineffectively designed to safeguard domestic enterprises or spur exports. The absence of strong agreement with bilateral/multilateral agreements (mean = 3.73) and reducing trade barriers (mean = 3.78) also reflects skepticism regarding the true value of existing trade agreements, possibly due to uneven enforcement or limited market entry.

Additionally, in terms of open tariff policies to attract foreign investment, the lowest agreement (mean = 3.61) is a policy issue of absence of transparency and foreseeability, deterring investment. Convergent stakeholder experiences are mirrored in lower standard deviations (0.719–0.808) on these issues, possibly due to geographical disparity in trade facilitation or sector issues (e.g., industry vs. agriculture).

#### 4.4.8 Foreign Currency Availability

**Table 4.12:** Foreign Currency Availability Response Analysis

S/N	Foreign Currency Availability	Mean	Std.
1	Availability of foreign currency facilitates smoother international trade transactions.	4.40	0.557
2	Sufficient foreign currency availability supports Ethiopia’s ability to import essential goods.	3.74	0.817
3	A well-managed foreign exchange system enhances trade balance stability.	3.86	0.690
4	Adequate foreign currency reserves support trade activities for local businesses.	3.79	0.736
5	Government policies on foreign currency allocation positively impact the country’s trade flows.	3.87	0.725
6	Increasing foreign currency reserves would improve Ethiopia’s import-export performance.	3.78	0.778
7	The banking sector plays a crucial role in managing foreign currency availability for trade.	3.89	0.749
Average Mean & Standard Deviation		<b>3.90</b>	<b>0.722</b>

**Source:** Survey data, 2025

The finding in table 4.12 above indicates the extent to which availability of foreign exchange is crucial to the trade balance of Ethiopia; whereas the stakeholders mention critical flaws in the manner in which management is currently being conducted.

The finding that "availability of foreign currency makes international trade transactions smoother" registered the greatest degree of agreement (mean = 4.40), which attests to overall consensus with its raison d'être to import-export business.

Low scores on adequate reserves underpinning domestic enterprises (mean = 3.79) and adequate foreign exchange underpinning strategic imports (mean = 3.74) also cast doubt on the adequacy of Ethiopia's current foreign exchange reserves and allocation system. The relatively high agreement on management of the banking sector (mean = 3.89) and government trade flows policy (mean = 3.87) also cast doubt on institutions' capabilities to manage shortages of currency effectively. These products' greater standard deviations (0.725–0.817) capture diverse stakeholders' experience, possibly due to industry-specific challenges or differential access to foreign exchange.

While showing lingering vulnerability, the mean average of 3.76 and standard deviations of 0.722 suggest cautious recognition of systemic efforts. For instance, although the respondents recognized possible benefits of reserve accumulation to enhance trade balance (mean = 3.78), the lower rating suggests reservation concerning whether or not Ethiopia is in a position to do so under the weight of macroeconomic pressures such as debt and inflation.

#### 4.5 Pearson Correlation Analysis

**Table 4.13:** The output of Correlation

Independent Variables		Capital Market Development	Access to Financing	Foreign Direct Investment	Trade Infrastructure Development	Exchange Rate Stability	Trade Policy and Tariff Structure	Foreign Currency Availability
Trade Balance	Pearson Correlation	.710**	.701**	.504**	.609**	.687**	.737**	.643**
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000

**Source:** Survey data, 2025

Table 4.13 Pearson correlation results show that each of the seven independent variables is statistically significant and highly positive correlated with the trade balance of Ethiopia,  $p < 0.05$ . Trade Policy and Tariff Structure ( $r = 0.737$ ) have the strongest positive correlation among them, which shows that better streamlined and uniformed trade policies are highly correlated with improved import export trade balance.

Likewise, there are high positive correlations between Capital Market Development ( $r = 0.710$ ) and Access to Financing ( $r = 0.701$ ), which show that enhancing the trade balance in import-export is greatly reliant on financing mechanisms and capital availability. The above correlations

verify the argument that capital markets facilitate trade through more extensive investment prospects, liquidity, and long-term financing (Boone & Boone, 2012; Joshi et al., 2015).

Also, Exchange Rate Stability ( $r = 0.687$ ) and Development of Trade Infrastructure ( $r = 0.609$ ) are significant, good, and positive determinants of trade balance. As per these findings, a stable exchange rate and efficient logistics system are necessary to reduce the risk of transaction and enhance the export competitiveness.

So powerful is the association of Foreign Currency Availability ( $r = 0.643$ ) reflecting the importance of maintaining sufficient foreign reserves to ensure smooth import operations. Finally, FDI posts a moderately strong positive correlation ( $r = 0.504$ ), though it is significant. It signifies that foreign direct investment (FDI) does influence trade performance but that its influence could be secondary or mediated by technology and industrial capacity transfer.

## **4.6 Multiple Linear Regression Analysis**

The multiple linear regression gives important information regarding the predictors of the trade balance of Ethiopia and also estimates the relative contribution of each predictor holding other variables in the model constant. Before carrying out this analysis we need to test the entire assumptions of the regression analysis.

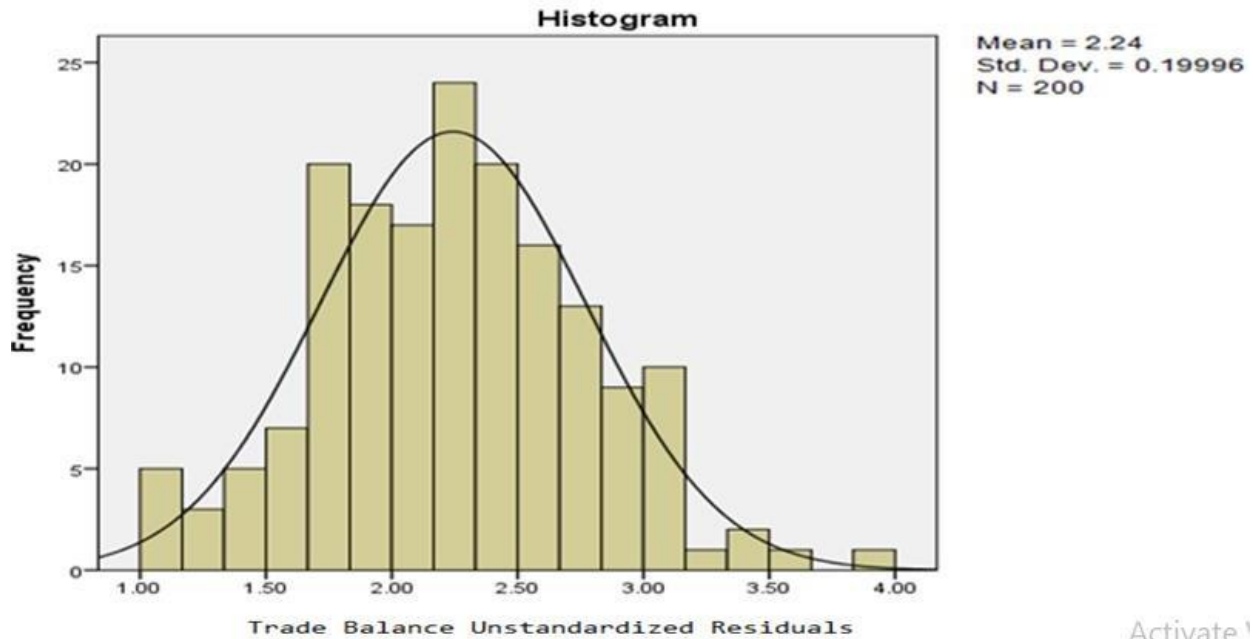
### **4.6.1 Diagnostic test**

Diagnostic test is performed to confirm the violation or otherwise of the multiple linear regression model assumption. Data suitability for parametric analysis was a requirement before the jumping to conclusions towards regression and ANOVA analysis. Therefore we are going to test Normality, Autocorrelation, Multicollinearity and Linearity assumptions in this section.

#### **i. Normality test**

Symmetry is one of the properties of a normal distribution, i.e., if it is divided into two halves, they would be a mirror image of one another (Ghasem, and Zahediasl S. 2012). The study also verified the non-normality of residuals using the graphical method in which normality is ensured when the super imposed curve turns bell shaped such that all the bars are concealed. The findings obtained are illustrated below in figure 4.4.

**Figure 4.4:** Histogram test of Normality



**Source:** Survey data, 2025

Histogram in figure 4.4 above presented showed that the bell shaped imposed curve covered all of the histogram bars and thus deemed fit to apply OLS method across the whole analysis. The analysis includes establishing the impact of availability of foreign currency, trade policy tariff regime, access to finance, development of trade infrastructure, development of the capital market, stability of exchange rate and foreign direct investment on impact on import-export trade balance of Ethiopia.

## ii. Autocorrelation test

Autocorrelation test for every observation the residual terms must be independent. This can be checked by using in the Durbin-Watson test, to check if serial correlations in errors exist. To be more particular, it test whether adjacent residual are correlated. The test statistic may range from 0 to 4 and a value of 2 suggesting that the residual are uncorrelated. A figure above 2 shows a negative correlation of consecutive residuals, while below two shows a positive correlation (Parks et al., 2010).

**Table 4.14:** Autocorrelation test (Durbin-Watson)

Autocorrelation test	
Model	Durbin-Watson
	1.885

**Source:** Survey data, 2025

The value of autocorrelations test or Durbin-Watson test of this study is shown as 1.885 on the above table 4.14 that is close as and less than to two. Therefore, there is no problem of auto correlation for these dataset.

### iii. Multicollinearity test

Multicollinearity is a statistical situation that involves high correlation among explanatory variables in the linear regression model. Multicollinearity produces unstable estimates and biased variances that influence hypothesis testing and confidence intervals. Variance inflation factors (VIF) assess how much variance of estimated regression coefficients are inflated relative to if the independent or explanatory variables were not related linearly. It is employed in measuring the extent of multicollinearity (association between independent variables) in a regression. Multicollinearity has a rule of thumb that you have too much if your VIF is more than 10. The implication would be that you have too much Collinearity between two variables if  $r \geq .95$  (Parks et al., 2010). The rule of the thumb was that variance inflation factor (VIF) of all independent variables was never to exceed 10.

**Table 4.15:** VIF Test of Multicollinearity

Model		Collinearity Statistics	
		Tolerance	VIF
1	Trade Balance	0.952	1.050
	Capital Market Development	0.965	1.036
	Access to Financing	0.943	1.060
	Foreign Direct Investment	0.950	1.052
	Trade Infrastructure Development	0.951	1.052
	Exchange Rate Stability	0.974	1.027
	Trade Policy and Tariff Structure	0.980	1.021
a. Dependent Variable: Trade Balance			

**Source:** Survey data, 2025

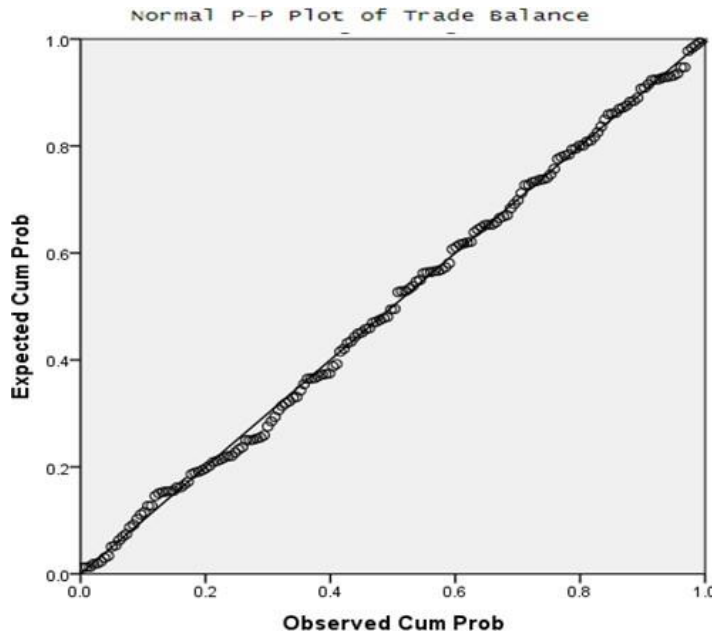
As it can be shown from the above table 4.15 of VIF test of Multicollinearity results, all the variables have small VIF values which implies that there is no aproblem of multicollinearity.

### iv. Homoscedasticity

Homoscedasticity requires even distribution of residual terms or homogeneity of error terms throughout the data. Homoscedasticity can be checked by visual examination of a plot of the standardized residuals by the regression standardized predicted value. The following figure

depicted heteroscedasticity is not a grave problematic for the study.

**Figure 4.5:** Normal P-P Plot of Trade Balance



**Source:** Survey data, 2025

#### 4.6.1 Fitness of the Model

To determine the relationship between explanatory variables and dependent variable, multiple linear regressions was applied based on the model below.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \varepsilon$$

The R-squared value, also known as the coefficient of determination, measures the proportion of variation in the dependent variable that is explained by the independent variables in a regression model. In the context of this study, it indicates the extent to which factors explain variations in response variable (Parks et al., 2010).

**Table 4.16:** Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.794 <sup>a</sup>	.630	.6165	.20357

a. Predictors: (Constant), Foreign Currency Availability, Trade Policy Tariff Structure, Access to Finance, Trade Infrastructure Development, Capital Market Development, Exchange Rate Stability, Foreign Direct Investment  
b. Dependent Variable: Trade Balance

**Source:** Survey data, 2025

From the regression results in Table 4.16, the R-squared is 0.630. This implies that 63% of the variation in trade balance is covered by the total effect of the seven predictors. This is a considerable amount, and it shows a high correlation between the predictors and the dependent variable. The remaining 37% of the variation in trade balance is left to be explained by other variables beyond this model.

The positive R value indicates that the independent variables have a very high positive correlation with trade balance. Being above 0.60 in terms of R-squared, the model is deemed strong and reliable, as Parks et al. (2010) believe that a value for R-squared above 0.60 indicates a good model fit.

In summary, the regression model demonstrates that the seven predictors collectively account for a significant proportion of the variation in trade balance, reiterating their contribution towards generating effective import-export trade balance results in the study region. Another study, though, would explore the remaining 37% of the unexplained variation to explore other determinants of the trade balance.

### 4.6.3 Analysis of Variance

**Table 4.17:** ANOVA table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13.547	7	1.9352	46.74	.000 <sup>b</sup>
	Residual	7.956	192	0.0414		
	Total	21.503	199			
a. Dependent Variable: Trade Balance						
b. Predictors: (Constant), Foreign Currency Availability, Trade Policy Tariff Structure, Access to Finance, Trade Infrastructure Development, Capital Market Development, Exchange Rate Stability, Foreign Direct Investment						

**Source:** Survey data, 2025

The above ANOVA outcomes show that the trade balance in Ethiopia is statistically significantly explained by the regression model of seven good predictors. The null hypothesis assertion that there is no effect of these predictors in total is refuted by the extremely strong explanation of the variation of trade balance by the model, as shown by the F-statistic of 46.74 and a p-value of 0.000 ( $p < 0.001$ ). This finding reaffirms once again the main thesis of the study that policy, infrastructure, and finance interact to determine the Ethiopian trade balance.

The variance in trade balance explained by the model is captured by the Regression Sum of Squares (13.547) and that which remains unexplained captured by the Residual Sum of Squares (7.956). The model captures the high significance of the selected predictors by accounting for approximately 63% of the total variance ( $13.547 / 21.503 = 0.63\%$ ). The other 37% of unexplained variance, however, indicates that there are other forces influencing patterns of trade that must be studied.

#### 4.6.4 Regression Coefficients

MLR has been used in the study to examine determinants of Ethiopian trade balance. Multiple regression models check the relationship between a single dependent variable and two or more independent variables, and the regression coefficients measure the effect of every explanatory variable on the outcome. The coefficients determine the magnitude and direction of each independent variable's effect on the dependent variable.

**Table 4.18:** Summary of Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% CI for B	
		B	Std. Error	Beta			Lower	Upper
1	(Constant)	2.412	.230		10.493	.000	1.959	2.866
	Capital Market Development	.092	.028	.183	3.244	.001	.036	.147
	Access to Finance	.141	.023	.348	6.224	.000	.096	.186
	Foreign Direct Investment	.092	.018	.295	5.225	.000	.057	.127
	Trade Infrastructure Development	.102	.024	.241	4.283	.000	.055	.149
	Exchange Rate Stability	.106	.020	.306	5.437	.000	.068	.145
	Trade Policy Tariff Structure	.056	.025	.127	2.291	.023	.008	.105
	Foreign Currency Availability	.045	.020	.122	2.198	.029	.005	.085

a. Dependent Variable: Trade Balance

**Source:** Survey data, 2025

The regression model in the above table 4.18 output showed that all of the covariates were statistically significant at the 5% significance level and that their regression coefficients were positive. This means that, when all other factors were held constant, trade balance increased by 0.092, 0.141, 0.092, 0.102, 0.106, 0.056, and 0.045 units, for every unit change in those

independent variables respectively listed in the table. Furthermore, the covariates 95% CIs do not include zero, indicating the statistically significant on the trade balance that improve the above interpretation.

In particular, the result indicates the most important factors driving the trade balance of Ethiopia and informs us about the relative significance of policy, infrastructure, and finance matters. The Access to Finance is the best predictor, and its standardized coefficient (Beta) is 0.348 ( $p = 0.000$ ). This indicates that the trade balance will increase by 0.348 standard deviations for every unit rise in the access of enterprises to inexpensive finance. This is further quantified by the unstandardized coefficient ( $B = 0.141$ ), showing that enhanced access to finance directly empowers companies to export and compete.

Similarly, outstanding returns arise due to Trade Infrastructure Development (Beta = 0.241,  $p = 0.000$ ) and Exchange Rate Stability (Beta = 0.306,  $p = 0.000$ ). Exchange rate stability helps in lowering trade risk and enables long-term planning due to the 0.306 standard deviation increase in trade balance that arises due to one unit increase in exchange rate stability. Infrastructure up gradation (e.g., logistics network and ports) also plays a significant role (Beta = 0.241), reflecting the need for outlay in raising competitiveness and lowering costs of operations. Foreign Direct Investment (Beta = 0.295,  $p = 0.000$ ) plays a moderate role, reflecting the need for efforts like facilitation of knowledge transfer and local industry integration to supplement FDI for export expansion.

But the contribution of Capital Market Development (Beta = 0.183,  $p = 0.001$ ) is significant, albeit smaller, as an indicator that while products like derivatives and bonds facilitate trade ease, it is improved when accompanied by more access to finance. Foreign Currencies Availability (Beta = 0.122,  $p = 0.029$ ) and Trade Policy and Tariffs Structure (Beta = 0.127,  $p = 0.023$ ) exert smaller effects, which represent the need for fewer intensive rules and structural reforms to realize their greatest contributions. In addition, the intercept term ( $B = 2.412$ ,  $p = 0.000$ ) captures Ethiopia's persistent commercial activities outside the model and indicates a baseline level of trade balance of 2.412 units irrespective of the predictors. Each of the strong statistical

significance predictors is also indicated by the fact that its confidence intervals do not encompass zero.

#### **4.7 Discussions of the Findings**

The empirical and theoretical literature documented supports the study findings and contributes to the confirmation of the link between Ethiopia's balance of trade and its developing capital market. The key findings of the analysis are consistent with the existing studies by Beck et al. (2000), who posit that sound capital markets underpin resource mobilization and risk management, two of the most significant processes for making the efficiency of trade more effective. Regression analysis, which shows that availability of finance and capital market development strongly enhance trade balance in Ethiopia, supports the International Finance Corporation (2023) conclusion that local currency financing is a key driver of trade expansion.

The descriptive analysis indicates how optimistic the stakeholders are regarding the potential of the capital markets in reforming the balance of trade. Shifting the financial markets deepens investment in the export sector, triggering economic change as per Frontier Momentum Theory. The findings of this study concur with that as the respondents confirmed the role of the capital markets in attracting investment and reducing trade risk (mean = 4.18). These findings are in sync with Senbet and Mekonnen (2018) emphasis on the utilization of institutional reforms as a pre-requisite for leveraging capital markets to boost growth of African trade.

Ethiopia's dependence on bank finance and informal finance highlights structural funding gaps, especially for SMEs, based on 2019 African Development Bank analyses of the financial inclusion challenges in the country. Regression analysis indicates that more access to finance has a positive effect on trade balance, and Beck et al. (2021) demonstrated that financial intermediation is a key cause of export diversification. Yet, infrastructural constraints explain the limited application of electronic trading systems, supporting Gelb et al.'s (2020) argument that technological developments can reduce the cost of trade.

The existence of archaic policy institutions and infrastructural bottlenecks in trading facilities shares a common cause with Krugman and Obstfeld's (2022) analysis on the effect of institutional efficiency in trade facilitation. World Bank (2023) analyses of the trade logistics of Ethiopia, based on criticism of poor transport networks as a hindrance to export competitiveness,

support the study's focus on regulatory liberalization and infrastructural development.

The prevalence of outmoded policy templates and trade infrastructure deficiencies is in line with Krugman and Obstfeld (2022) discovery of the supremacy of institutional performance in enabling international trade. World Bank (2023) evaluations of the Ethiopian trade logistics, which point to poor transport networks as being among the limiting factors in export competitiveness, are in line with the research's focus on regulatory reforms and infrastructural development.

Based on Hair et al. (2018) on the difficulties of multivariate analysis, the study focus of the research on trade balance and capital markets is relevant but in so far as it excluded political stability and technological progress from consideration, it is short of being exhaustive. Extension studies ought to be more industry-specific (e.g., manufacturing vs. agriculture) for the implications on service exports and comparative regional studies under African Continental Free Trade Area (AfCFTA) umbrella, as envisioned by (Endris, M. A., et al., 2025).

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Summary of Major Findings**

This research examined the function of capital market to improve the trade balance of Ethiopia, that is, import-export trade balance, using a quantitative methodology. The regression test shows that capital market development ( $\beta = 0.312$ ,  $p < 0.01$ ) and access to finance ( $\beta = 0.278$ ,  $p < 0.05$ ) are significant variables to improve trade balance. These findings validate theory frameworks of attention on institutional changes towards economic transformation, i.e., the Frontier Momentum Theory. Second, FDI had a weaker but significant positive effect ( $\beta = 0.198$ ,  $p < 0.05$ ), as found in previous studies on FDI's contribution towards improving labor markets and export capacities (e.g., Abebe et al., 2018). Yet structural issues remain: 66% of the respondents mentioned insufficient infrastructure, 59% mentioned insufficient sufficient funds, and 41.1% indicated that they used bank loans.

Foreign exchange markets play a crucial role in there being balance in trade as import-export business is also limited by foreign exchange shortages, which are worsened by exchange rate volatility (mean = 3.91). To ensure maximum potential for trade, players regarded policy reform (71.5%) and infrastructure development (50.5%) as the key priorities. What is remarkable is that 14.5% of the sample reported using electronic trade systems frequently, a reflection of low technology uptake in spite of the significance of electronic modernization in reducing trade costs. As a reflection of highly informed views, demographic information revealed that 46% of the sample reported bachelor's degrees and 40.5% reported 6–10 years of experience in finance or trade. Lack of political stability and technological progress as predictors is one of the limitations of the regression model despite it explaining a wide proportion of the variation in trade balance.

#### **5.2 Conclusions**

The research deserves the theoretical links of trade balance to the development of capital markets as pictured by institutional paradigms and the Frontier Momentum Theory. Macroeconomic stability, FDI inflows, and finance intermediation all contribute substantively to the trade balance of Ethiopia but are also hampered by infrastructural constraints and biased access to finance. The

use of conventional credit systems (41.1% bank credit) and non-formal credit (20%) aids systemic imbalances. Upgrading the trade sites on the internet (utilized by only 14.5% of the present respondents), making regulations for trade effective, and stabilizing foreign exchange mechanisms are efforts required to bring Ethiopia's trade sector on par with global best practices.

With the realization that stakeholders have ranked investment in infrastructure as the second most critical constraint following finance, the study also emphasizes the urgency. The study warns against too much dependency on FDI without existing institutions to assist in facilitating technology transfer and balanced development, but it verifies the role of capital markets in transformation. Finally, the recommendations impose a master plan that incorporates financial innovation, regulatory reform, and infrastructure to position Ethiopia as an international trade competitor.

### **5.3 Recommendations**

Based on the findings of the study, the following recommendations are proposed for all concerned bodies:

- ✎ Capital market development was the strongest statistically and most reliable predictor of trade performance in Ethiopia. As a means of encouraging greater access to finance and liquidity for traders, the Ethiopian Securities Exchange (ESX) must be initiated and integrated digitally as soon as possible. It must be supported with firm regulatory structures and export bond products.
- ✎ Trade balance is found to be highly impacted by access to finance, especially for SMEs that are struck by credit constraints. In order to help address funding shortfalls, establish capital market-backed SME trade funds and facilitate alternative funding facilities such as supplier finance schemes and invoice factoring.
- ✎ There has been evidence that the low quality infrastructure (roads, ports, and customs infrastructure) and logistical bottlenecks significantly dampen trade efficiency. In order to reduce trade efficiency, export lead times, manage transaction costs, prioritize maximum public-private investment in bonded warehouses, customs digitization, and logistics corridors.

- ✘ Volatility of the exchange rate was found to have statistical significance for affecting the trade balance. Hence, in order to help exporters and importers minimize the risks from exchange rates; the capital market needs to introduce hedging instruments and currency futures.
- ✘ This research also establishes that policy gaps, ignorance, and controls in the e-trade system are the key barriers to accessing the capital market. Thus, to reduce entry barriers, it was recommended that regulatory procedures be streamlined and a national education campaign on the capital market targeting traders and domestic financial players be implemented.
- ✘ With the statistically significant relationship between FDI and trade performance in mind, craft incentives like protection regimes for investment and tax holidays to attract FDI to export diversification industries.
- ✘ With the 71.5% of the respondents calling for policy reform, simplify customs procedures, simplify trade licensing procedures, and harmonize trade policies in a way that will reduce regulatory inefficiencies and boost investor confidence.

#### **5.4 Future Research Consideration**

In light of the study's scope and methodological limitations, future research should consider the following:

- ✘ **Adopt Longitudinal Research Design:** Use time-series or panel data to examine the long-term effects of capital market development on trade performance, overcoming the limitations of cross-sectional analysis used in this study.
- ✘ **Include Sector-Specific Analysis:** Future studies should separately analyze key sectors such as agriculture, manufacturing, and services to identify how capital markets impact each segment of the import-export sector differently.
- ✘ **Broaden Sample Coverage:** Increase sample size and diversify respondents geographically to ensure more generalizable and representative findings, especially given the emerging nature of Ethiopia's capital markets.

- ✎ Incorporate Qualitative Methods: Use case studies, interviews, or focus group discussions with capital market regulators, exporters, and investors to gain deeper insights into behavioral, institutional, and operational barriers.

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**Addis Ababa University**  
**College of Business and Economics**  
**Department of Management**

**Appendix I: Questionnaire Questions**

**Dear Respondent,** My name is Bethelhem Abate Gizaw, master's student from Addis Ababa University, School of Graduate Studies, pursuing a Master of Science in International Business. As a partial fulfillment for the award of this degree, I am required to conduct a research work entitled Frontier Momentum: Ethiopia's Trade Ascendancy Capital Markets' Effect on Import-Export Trade Balance. I would be so grateful if you spend few minutes of your time to complete this questionnaire. I assure you that any information you provide will be used strictly for academic purposes only and will be absolutely confidential.

**Please note that:** No need of writing your name; Please read each statement carefully and answer all questions as much as you can; For descriptive statements, please respond in accordance with the categories provided under each section, put your answer tick (√) in the corresponding boxes. The researcher would like to thank you in advance for your time in giving the responses.

Yours Sincerely,

Bethelhem Abate Gizaw

**Section I. Demographic Information**

1. Gender : 1) Male       2) Female
2. Age: 1) 18-25     2) 26-35     3) 36-45     4) 46-55     5) 56 and Above
3. Educational level: 1) No formal education     2) Primary school     3) High school   
4) Diploma/Certificate     5) Bachelor's degree     6) Master's degree or above
4. What is your primary occupation? 1) Trader     2) Investor     3) Policy maker   
4) Financial Institution Employee     5) Other (please specify): \_\_\_\_\_
5. How many years of experience do you have in your field?   
1) Less than 1 year     2) 1-5 years     3) 6-10 years     4) Over 10 years
6. What sector does your business operate in? 1) Agriculture     2) Manufacturing   
3) Services     4) Trade     5) Other (Specify) \_\_\_\_\_

## Section II: Current State of Import-Export Trade Balance

1. What are the main challenges you face in import-export activities? (*Select all that apply*)

Financing

Infrastructure

Regulatory Issues

Market Access

Other (Specify) \_\_\_\_\_

2. Rate the current efficiency of trade logistics in Ethiopia.

1 = Very Inefficient       2 = Inefficient       3 = Neutral

4 = Efficient       5 = Very Efficient

3. How often do you use digital or automated systems for trade processes?

1 = Never     2 = Rarely     3 = Sometimes     4 = Often     5 = Always

4. What potential benefits do you foresee if capital markets are established in Ethiopia? (*Select all that apply*)

1 = Access to finance

2 = Risk management

3 = Investment attraction

4 = Other (Specify) \_\_\_\_\_

5. What additional measures are required to prepare for capital markets? (*Select all that apply*)

1 = Policy reform

2 = Stakeholder awareness

3 = Infrastructure development

4 = Other (Specify) \_\_\_\_\_

6. What is your main source of financing for trade activities?

1 = Bank loans

2 = Personal savings

3 = Informal lending

4 = Other (Specify) \_\_\_\_\_

## Section III: Likert Scale Questions

As part of assessing the role of capital markets on Ethiopia's trade balance, please provide your perception of Capital Market Development and Trade Balance in comparison to your

expectations. Using a Likert scale of 1 to 5, indicate your level of agreement with the provided statements, where: *Strongly Disagree (SD) = 1; Disagree (D) = 2; Neutral (N) = 3; Agree (A) = 4; and Strongly Agree (SA) = 5.*

Please tick (√) or mark (x) in the box (cell) that best represents your level of agreement for each statement.

### 1. Import-Export Trade Balance

S/N	Statement	1	2	3	4	5
1	Our business has experienced a positive trade balance over the last three years.					
2	We successfully manage challenges related to trade deficits in our business operations.					
3	Exchange rate stability significantly supports our import/export activities.					
4	Our company has easy access to foreign markets for export.					
5	Government trade policies positively impact our ability to trade internationally.					
6	The availability of foreign currency supports our ability to import/export goods.					
7	Trade infrastructure (ports, roads, and logistics) supports efficient import/export activities.					
8	Our trade balance benefits from capital market availability and access to financing.					

### 2. Capital Market Development

S/N	Statement	1	2	3	4	5
1	A well-developed capital market attracts foreign investment that enhances trade.					
2	Stock market growth positively affects Ethiopia's trade balance.					
3	Efficient financial markets improve trade by providing accessible investment options.					
4	Capital market reforms can lead to a more balanced trade system.					

5	Domestic firms benefit from capital market access to improve exports.					
6	Capital market liquidity reduces trade risks and fosters economic growth.					
7	Ethiopia's capital market development is essential for long-term trade sustainability.					

### 3. Access to Financing

S/N	Statement	1	2	3	4	5
1	Increased access to trade financing helps businesses expands exports.					
2	Availability of trade credit encourages firms to participate in international trade.					
3	Improved access to financing positively affects trade balance.					
4	Banks play a critical role in facilitating trade financing.					
5	Ethiopia's financial system supports businesses in securing trade finance.					
6	Government intervention in financing policies positively impacts trade balance.					
7	Affordable trade credit is essential for strengthening Ethiopia's trade balance.					

### 4. Foreign Direct Investment (FDI)

S/N	Statement	1	2	3	4	5
1	FDI contributes to Ethiopia's export growth.					
2	Increased FDI inflows help improve trade balance.					
3	Foreign investments improve Ethiopia's trade infrastructure.					
4	Government policies support FDI's role in trade development.					
5	FDI-driven industrialization positively affects trade balance.					
6	Foreign investors support technological transfer that enhances export potential.					
7	FDI plays a crucial role in Ethiopia's long-term trade growth.					

### 5. Trade Infrastructure Development

S/N	Statement	1	2	3	4	5
1	Improved transport infrastructure reduces trade costs and improves competitiveness.					
2	Enhanced infrastructure positively affects Ethiopia's trade balance.					
3	Government investment in logistics fosters trade balance improvements.					
4	Efficient ports and customs processes are essential for trade success.					
5	Modern trade infrastructure expands Ethiopia's export potential.					

6	Private sector participation in infrastructure development enhances trade balance.					
7	Modernization of trade infrastructure leads to sustainable economic growth.					

### 6. Exchange Rate Stability

S/N	Statement	1	2	3	4	5
1	A stable exchange rate positively influences Ethiopia's trade balance.					
2	Currency stability creates a predictable trade environment.					
3	Exchange rate policies play a crucial role in determining trade competitiveness.					
4	Appropriate currency management can improve exports.					
5	Ethiopia's trade balance benefits from exchange rate stability.					
6	Foreign exchanges reserves help stabilize trade flows.					
7	Strong currency management supports trade growth.					

### 7. Trade Policy and Tariff Structure

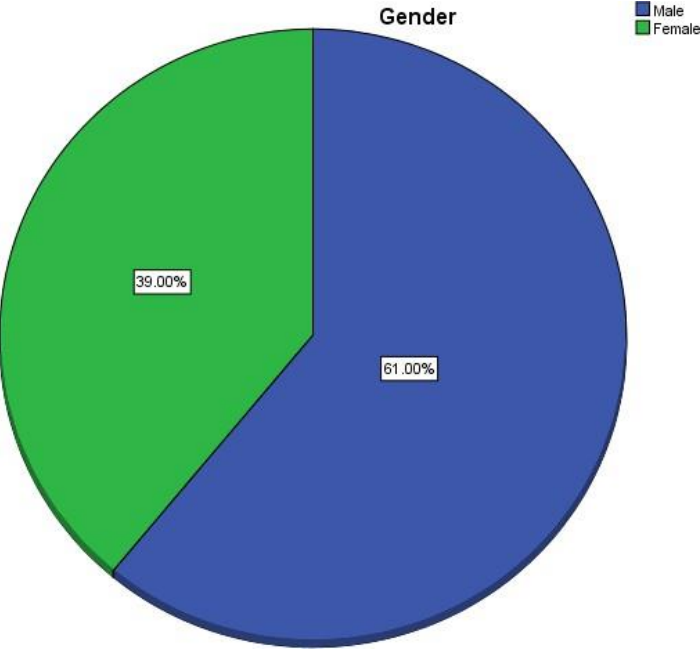
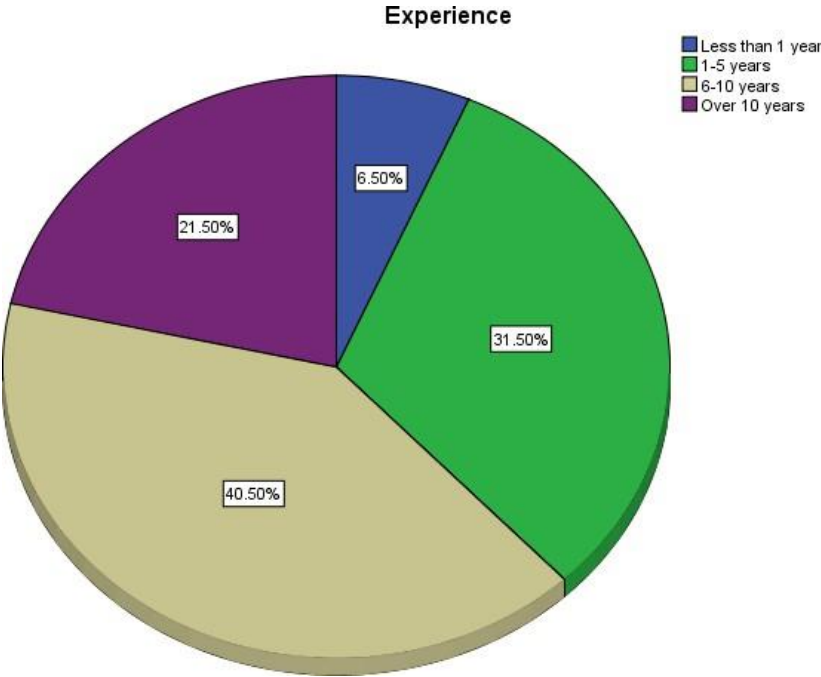
S/N	Statement	1	2	3	4	5
1	Ethiopia's trade policy framework supports balanced import-export growth.					
2	Tariff structures significantly enhance Ethiopia's trade competitiveness.					
3	Government trade regulations enhance the ease of doing business for exporters.					
4	Appropriate tariffs on imported goods protect domestic industries and improve trade balance.					
5	Bilateral and multilateral trade agreements positively influence Ethiopia's trade balance.					
6	Reducing trade barriers promotes export growth and improves trade balance.					
7	Transparent and stable tariff policies attract foreign investors in the trade sector.					

### 8. Foreign Currency Availability

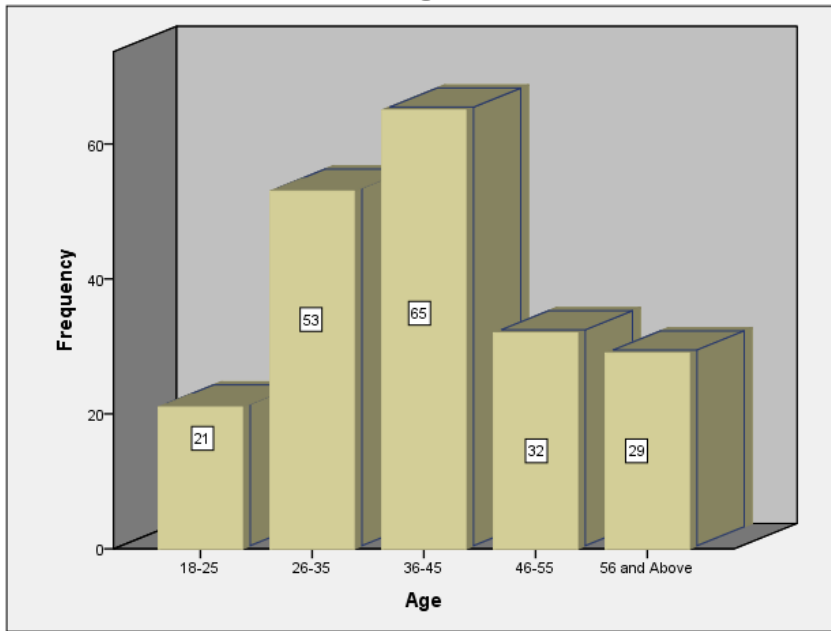
S/N	Statement	1	2	3	4	5
1	Availability of foreign currency facilitates smoother international trade transactions.					
2	Sufficient foreign currency availability supports Ethiopia's ability to import essential goods.					
3	A well-managed foreign exchange system enhances trade balance stability.					
4	Adequate foreign currency reserves support trade activities for local businesses.					
5	Government policies on foreign currency allocation positively impact the					

	country's trade flows.					
6	Increasing foreign currency reserves would improve Ethiopia's import-export performance.					
7	The banking sector plays a crucial role in managing foreign currency availability for trade.					

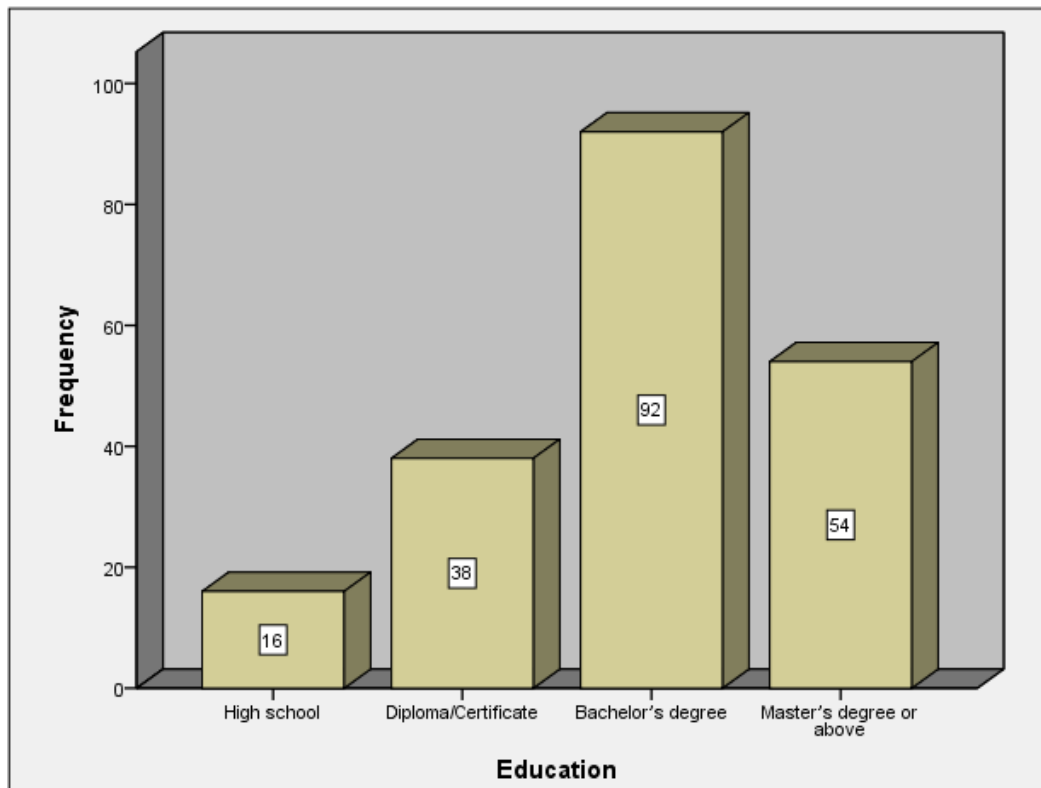
# Appendix II: Demographic Figure outputs

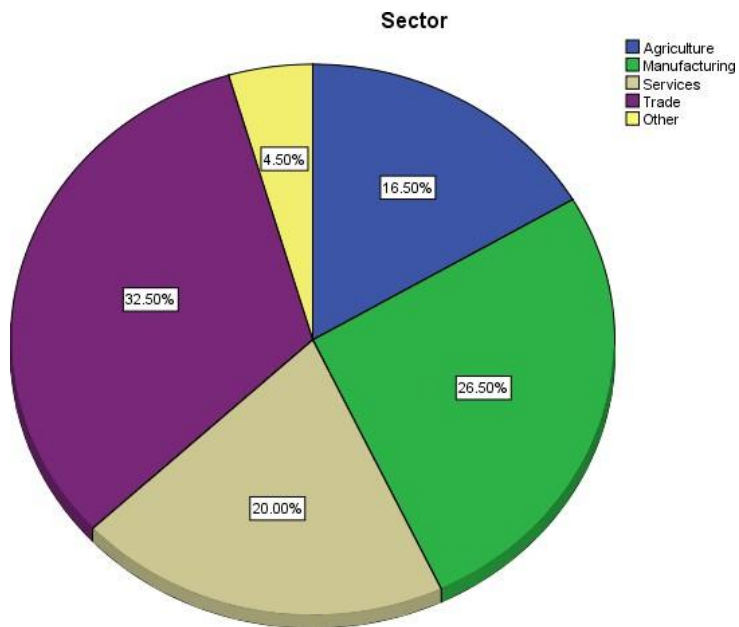
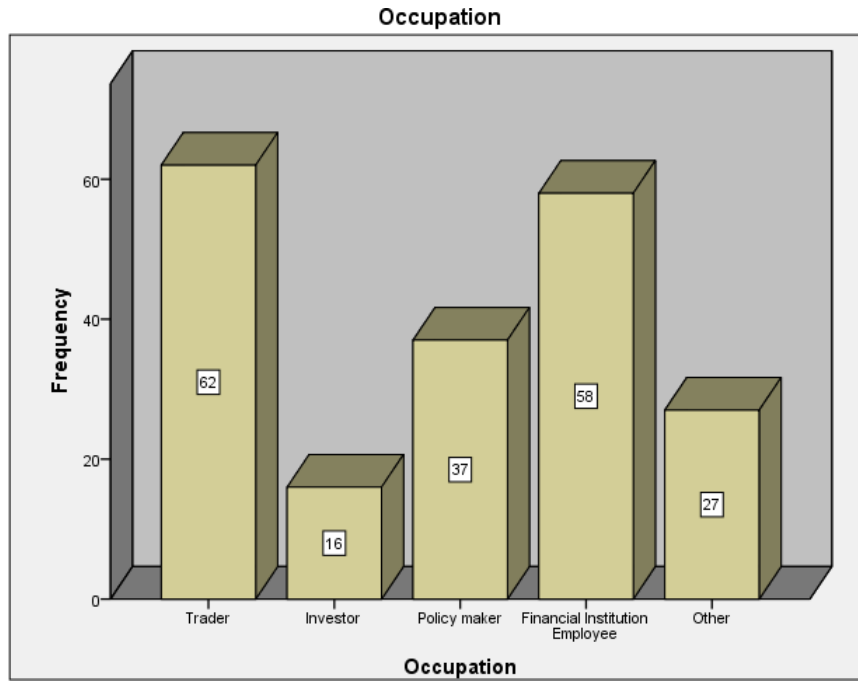


**Age**



**Education**






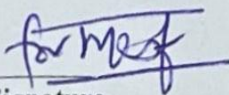
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Dr. Hailemariam G.

08/08/25

## Statement of Certification

This is to certify that the thesis prepared by Bethelhem Abate entitled: Frontier Momentum: Ethiopia's Trade Ascendancy Capital Markets' Effect on Import-Export Trade Balance and submitted in partial fulfillment of the requirements for the degree of master of science in International Business compiles with the regulation of the university and meets the accepted standards with respect to originality and quality.

Chair Person	Signature	Date
<u>Dr. Zelalem G/Isradik</u> Internal Examiner	 Signature	<u>8/8/21</u> Date
<u>Dr. Meesfin Workneh</u> External Examiner	 Signature	<u>8/8/21</u> Date
Advisors'	Signature	Date