ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF PUBLIC ADMINISTRATION AND DEVELOPMENT MANAGEMENT

INFANT INDUSTRY PROTECTION POLICY IN ETHIOPIA: PROSPECTS AND CHALLENGES

THE CASE OF KOREAN DEVELOPMENT TRAJECTORIES AS A ROLE MODEL

A RESEARCH THESIS PRESENTED IN PARTIAL FULFILLMENT OF MASTER'S DEGREE IN PUBLIC ADMINISTRATION AND DEVELOPMENT MANAGEMENT

BY

TEKLETSADIK EKA

NOVEMBER 2015

ADDIS ABABA, ETHIOPIA

Addis Ababa University

School of Graduate Studies
College of Business and Economics
Department of Public Administration and Development Management

Infant Industry Protection Policy in Ethiopia: Prospects and Challenges

The Case of Korean Development Trajectories as a Role Model

A Research Thesis Presented in Partial Fulfillment of Master's Degree in Public Administration and Development Management

.

Tekletsadik Eka

Approved by Board of Examiners:

Dr______________

____________________________	________________	_________________
Thesis advisor	**signature**	**date**
____________________________	________________	_________________
External examiner	**signature**	**date**
____________________________	________________	_________________
Internal examiner	**signature**	**date**
____________________________	________________	_________________
Chairperson	**signature**	**date**

Certification

This is to certify that this study was carried out by Tekletsadik Eka of the Department of Public Administration and Development Management, College of Business and Economics Addis Ababa University, under my supervision and that it has not been submitted for the award of any degree in this or any other university.

N A M E	**SIGNATURE AND DATE**
Dr._ --- **Advisor_______________________**	**--**
Dr.--- **Head of Department**	**--**
Dr.--- **---**	**--**

Declaration

I the undersigned declare that this thesis entitled _Enfant Industry Protection Policy in Ethiopia: The prospects and challenges, the case of federal micro and small Enterprises Agency, FeMSEDA is based on original study in the department of Public Administration and Development Management, College of Business and Economics, under the supervision of _________________The ideas and views of this research work is solely those of mine, Tekle Tsadik Eka, and the views of other researchers have been duly acknowledged.

The Above Declaration is Attested By

Name	Signature	Date
Advisor _________________________	______________	_________________
Head of Dept.____________________	_______________	_________________
Examiner ____________ ________	_______________	_________________

Dedication

This work is dedicated, first to the Almighty my father in Christian faith, the Sustainer of life who continually guides the steps of those who trust in him. Second my wife Martha who has made a relentless effort in retouching reading and editing the material at its draft stage, my son Miky, and my two daughters Nardi & Halleluya who were always providing me with the required moral and material encouragement.

ACKNOWLEDGEMENTS

I would also like to extend my sincere appreciations to specially four colleagues in Federal Micro and Small Enterprise Agency (FEMSEDA), Ato Alemayehu Kebede, senior staff in planning unit, Ato workenh Adamu, Ato Fuad Abebe, Ato worku Tegafaw, all Senior experts in the Agency (FEMSEDA), Who extended their whole hearted support in distributing questionnaires in all randomly selected sub cities and Woredas. They not only extended their support in distributing the questionnaires, but also encouraged, pushed the people who were initially reluctant to fill the questionnaires. They guided me, given me the hints in pin pointing those individuals in charge of the business. I am indebted to them.

TABLE OF CONTENT

LIST OF TABLES

Page

Abbreviation

EOI: Export-oriented industrialization

GTP: Growth and Transformation Plan

MSE: Micro and Small Enterprises

EDRI: Ethiopian Development Research Institute

SSA: South of Saharan Africa

GDP: Gross Domestic Product

FEMSEDA): Federal Micro and Small Enterprise Development Agency

MOFED: Ministry of Finance and Economic Development

(CSA): Central Statistical Agency

AACC: Addis Ababa Chamber of Commerce

LDC: Less Developed countries

(EP): Export Promotion

(ISI): Import Substitution Industrialization

PASDEP Plan for Accelerated and Sustained Development to End Poverty

R&D: Research and Development

EAC: East African Countries

OECD: Organization for Economic Cooperation and Development

(EPB): Economic Planning Board

EPRDF: Ethiopian People‟s Revolutionary Democratic Front

FDI : Foreign Direct Investment

FDRE: Federal Democratic Republic of Ethiopia

EEA: Ethiopian Economics Association

(DAC): Djibouti Corridor Authority

ABSTRACT

It is a widely accepted theme to read the fact the industrialization is an engine of growth. This is applicable to all countries of the world whether developed or underdeveloped. With this statements one can start an argument that is the current underdeveloped world, on one part should critically study and analyze the stage of their economic, social, political, geographical situation and take it as a base for their economic planning, which is lacking in countries like Ethiopia, then what we should learn from the developed world is first their development trajectories by critically examining their stage of development how they passed through, then adapt it step by step approach sequencing the development plan scientifically meaning what to emulate and what not to emulate. In Ethiopia, What can be read from different sources (EDRI, 2014), the Micro and Small Enterprises sector is largely unknown sector; this situation by itself is weakness. As to the explanation of (K.Mogus, 2008), fundamental principle governing growth and development of a nation is its potential to exploit its factor endowment, i.e. Agriculture led industrialization. Ethiopia's industrialization strategy starts from Medium level and then goes upward which means in planning (GTP I and II) the MSE sector is largely unknown (EDRI 2014). When this situation further reviewed, industrialization growth sustainability cannot be said that it has a strong base because it started from mid-level than micro level industrialization unlike the Korean development path and this is the basic argument the researcher highlights here. Added to the above fact, the necessity for entrepreneurship, innovative approach to business ideas and productivity development in Ethiopia's Small industries is highly demanding, because this sector is considered as a breeding ground for industrialization. This research paper mainly concentrates on the pros and cons of the macro and small Enterprises sector development and factors that are impediments to the growth of this sector.

Chapter One: Introduction and Objective of the Study

1 BACKGROUND

The significance of the contribution of Micro and Small Enterprises (MSEs) to the national development goals in general and to the local economy in particular, is being recognized increasingly in many developing countries including Ethiopia. Therefore, closer attention is being paid to the factors that promote the growth and development of this sector. However recent studies indicated that MSEs in Ethiopia are confronted by many problems such as problems of productivity, price competitiveness and quality. Not only that, but the low level attention given to this sector. Hence this study has been designed to assess the existing situation of micro and small enterprises, the challenges they face for their sustainability taking into account both internal and external factors that contributed to the above mentioned problems. Infant Industries or Micro and Small (MSEEs) are considered the engines of growth in developing countries. In developed countries, MSEs have historically played a vital role in creating jobs, and considered a breeding ground for innovations, and creating new products, and thus contributed to economic vitality and growth, still it is around 21million micro and Small Enterprises employing around 75million (Ethiopian TV and Radio September 28, 2015) . Taking these experiences into account, African countries particularly Ethiopia should not overlook the importance of promoting MSE‘s in the same regard. However, considering the situation in Ethiopia, there are several impediments that have to be removed in order for MSE to flourish. The researcher took the possibility of Korean Democratic Republic development trajectories if it could be possible to emulate Korea as a role model for Ethiopia‘s growth and development paths.

Introduction

Defining the basic concept behind Infant Industry: The Federal Micro and Small Enterprise Agency (FEMSEDA) define in the following manner:

The new definition considers human capital and asset as the main measures (see table below). The new definition addresses the limitations of the old definition. Minimum asset requirement for services and industry is

Table (1)

New (Current) Definition of MSEs in Ethiopia			
Level of the Enterprise	**Sector**	**Human resource Level**	**Total registered Asset**
Micro Enterprises	Industry	$X \leq 5$	<100000 ($6000 or E4500)
	Service	$X \geq 5$	< 50,000 ($3000 or E2200)
Small enterprise	Industry	$X \geq 5$	< birr 1.5 million ($9000 or E70000).
	Service	6-30	< birr 500,000 ($30000 or E 23000)

Source: FeMSEDA, 2003
'X" being the No. of employees.

Wikipedia, the free encyclopedia, defines the *infant industry argument* is an economic rationale for trade protectionism. The core of the argument is that nascent industries often do not have the economies of scale that their older competitors from other countries may have, and thus need to be protected until they can attain similar economies of scale. The argument as identified in Wikipedia, was first fully articulated by Alexander Hamilton in his 1790 Report on Manufacture, was systematically developed by Daneil Raymond and was later picked up by Friedrich List in his 1841 work. *The National System of Political Economy,* following his exposure to the idea during his residence in the United States in the 1820s Wikipedia further explores the historical development of trade protection:

> *Many countries have successfully industrialized behind tariff barriers. For example, from 1816 through 1945, tariffs in the USA were among the highest in the world. According to Ha-Joon Chang, "Almost all of today's rich countries used tariff protection and subsidies to develop their industries. Source: (Wikipedia.com).*

To clarify the intention of the researcher, at this point is, to highlight the infant industry protection policy through tariffs and quotas and on the other hand the free trade policy that rejects the tariffs and quotas and also to highlight the pros and cons of each of these policies and their impacts on the economies of a third world country like Ethiopia. Because they have a great impact on the growth of Infant industries in a developing country like Ethiopia.

Hence the basic and core element in this research concentrates in and around as to why nations particularly, the underdeveloped countries like Ethiopia has to protect its infant industries through tariffs and quotas, or otherwise open its infant industries to free competitions whether in domestic or international markets. What is the importance to note here is, the question of international trade that gets involved in Micro and Small Industries development strategies.

The above indicated web site (Wikipedia.com) argues about the fact that infant industry protection is controversial as a policy recommendation. As with the other economic rationales for protectionism, it is often abused by rent seeking interests. Even when infant industry protection is well–intentioned, it is difficult for governments to know which industries they should protect; "infant" industries may never "grow up" relative to "adult" foreign competitors (Ibid).

The problem in Ethiopia(K Mogus,2008), is the low level degree of attention or weight given to this sector and equally sensitive aspect is the problem of productivity and competitiveness particularly in the area of micro and small Industries in Ethiopia(ibid).

When the question of industrialization is raised, the importance of Micro and Small Industries contribution to the development of the country should be considered as the base for national development thinking in line with todays developed countries of the world. Small and micro Enterprises may be defined as businesses with a small number of employees. The legal definition of ―Micro and Small" often varies by country and industry, but is generally under 100 employees in the United States while under 50 employees in the European Union. In Ethiopia, the Ministry of Trade and Industry adopted official definition of Micro and Small enterprises as follows:

- Micro enterprises are business enterprises found in all sectors of the Ethiopian economy with a paid-up capital (fixed assets) of not more than Birr 20,000, but excluding high-tech consultancy firms and other high-tech establishments.

- Small Enterprises are business enterprises with a paid-up capital of not less than Birr 20,000 ($2,500) but not more than Birr 500,000 ($62,500) but excluding high-tech consultancy firms and other high-tech establishments.

With a high employment opportunities and an engine of industrialization growth the MSE sector is weak (EDRI, 2014), (Kibre Mogus, 2008) expressed the same argument about the neglect of the MSE sector.

Most countries produce few results because they fail to identify proper goals and lack concrete knowledge of how to conduct effective promotion. Ethiopia‘s SME policy also remains underdeveloped. Its goal must be re-defined with clarity and concreteness and its policy instruments and mechanism must be strengthened by learning selectively from successful countries. (Source: http://www.grips.ac.jp/forum-)

1.2 Statement of the problem

Despite its importance, the size of the Ethiopian MSE sector is less known as (EDRI,2014) explains, The MSE sector is a key target sector but its current size or performance in terms of its contribution to GDP, Employment and Export and total manufacturing output is largely unknown. Moreover, given the importance attached to the MSE sector and massive support extended, results are less known (ibid).

The most important argument in favor of small-scale industries is (EDRI, 2104), the creation of entrepreneurship, which is lacking in less developed country like Ethiopia. Whatever policy issues are considered, this fact must not be overlooked. The dynamism of small-scale industries lies in their ability to create a private entrepreneurial class capable of going into large-scale operation (ibid).

The problem in Ethiopia(K Mogus,2008), is the low level degree of attention or weight given to this sector and equally sensitive aspect is the problem of productivity and competitiveness in in international market particularly in the area of micro and small Industries in Ethiopia(ibid).

According to the FEMSEDA Report (1994-1995), mentioned as a contributing factor, the major obstacles experienced by MSEs were lack of access to finance, working premises (at affordable rent), lack of skills and managerial expertise, infrastructure, information and technology etc. These problems result in failure of these businesses to operate sustainably and even these challenges are from the beginning of their operations:

- Most Ethiopian industries are not competitive. Productivity is low, And quality often does not meet international standards;
- The technology used is often old and obsolete. Technological Information is not easily available to entrepreneurs;
- The skills and qualification of the workforce are often inadequate for modern industrial production;
- Most owners/managers of manufacturing industries do not have a modern management qualification and background, but come from a more traditional crafts background. Entrepreneurship is not firmly rooted in Ethiopian society and moreover suffered greatly under the former socialist regime (ibid).
  The root causes of these problems in Ethiopia have to be identified and effectively dealt with inured to maintain accelerated and sustained economic development.

Table (2)

Selection of country case studies

Partners of German development cooperation engaged in well- established bilateral programs in "Sustainable economic development". Bold letters indicate country case studies

Competitiveness (World Economic Forum [WEF], Global Competitiveness Indicators 2009 – 2010)				**Government effectiveness** (World Bank, 2009)
< 3.4	*3.4 – 3.8*	*3.8 – 4.2*	*> 4.2*	
		Namibia	**Tunisia**	*Fairly high* *> 0.0*
Mozambique	Ghana	Morocco Sri Lanka		*Moderate* *- 0.3 – 0.0*
Kyrgyz Republic	Uganda **Ethiopia** Mongolia	**Egypt** **Vietnam** Algeria Honduras		*Low* *- 0.7 – - 0.3*
	Syria Cambodia			*Very low* *< - 0.7*

Source: World Economic Forum (Global Competitiveness Indicators 2009–2010) / World Bank, 2009

1.3. Objectives of the study

1.3.1. General Objective

To Identify the causes of the underdevelopment of Ethiopia's manufacturing Industries especially the MSE sector for which Micro and small Enterprises are considered to be the spring board for growth and development by the currently developed economies. And also identify the causes of manufacturing sector in Ethiopia (MOFED, 2002) operates at very low technological level, well behind world technological standards even in the activities in which it specializes. (ibid Line item 8.7).

1.3.2 Specific Objective of the Study

- To describe the nature of micro and small enterprise and its contribution to the society.
- To critically assess why Micro and Small Enterprises in Ethiopia suffer from low productivity and incompetency in international market?
- To Identify which economic policy strategy in Micro and Small industry sector, that The Korean Republic succeeded in, could be emulated or could be adapted by Ethiopia?
- To examine the root causes of problems related to backward and forward linkage of industrial sector with Agricultural sector.

  N.B: lack of industrial sector linkage with agricultural sector is the current major problem impeding to the growth of MSE sector, but in the implementation strategy section of (MOFED GTP, 2010), which is prepared for 2014/2015, it did not mention about the linkage problem with the MSE sector, and this is still lack of attention or low level of recognition for MSE sector.
- To assess the internal and external constraints or factors that affects the sustainability of micro and small enterprise in the study area.

1.4. RESEARCH QUESTIONS

Regarding Korean development trajectories:

1) What are some of the sectors in Korea in which Ethiopia can take lessons from it?
2) What the historical development of Korean industrial policies look like and their implication to the development progress of Ethiopia?
3) What are the factors which enable the Korean republic to embark on a spectacular social and economic transformation with in a relatively short period of time?
4) What specific and achievable recommendations can be drawn from case study in point to Ethiopia?

Regarding MSE in Ethiopia:

- What are the root causes of under productivity, and incompetence of micro and small Enterprises in Ethiopia and how would Ethiopia‘s Small manufacturing Industries develop or grow to larger or medium level Industries in with all its constraints?
- What are the impacts of government intervention in Infant Industry sector development?

1.5 Definitions of Concepts and Terms

An enterprise can be defined as ―Micro Enterprise" when the numbers of its employees (including the owner or family) are not greater than 5 & total asset is ≤ 100,000 ETB for industrial sector, and ≤ 50,000 ETB for service sector. In a similar manner, an enterprise with 6-30 employees & total asset 100,001—1,500,000 ETB for industrial sector and 50, 0001—500,000 ETB for service sector is defined as ―Small Enterprise".

Growth oriented Micro and Small Enterprises (MSEs) are MSEs engaged in production of goods and services in the sectors given priorities in the economic development of the country in most policy and strategy documents of the government (e.g., MoFED, GTP, 2010). The GTP identifies sectors like, construction, metal and woodworking, textile and garments, leather and foot wear, agro-processing, roads & other infrastructures as growth oriented sectors in which MSEs are also have considerable parts (MoFED, GTP, 2010).
The concept of ―Iformal and formal" enterprises are the other terms need some contextual definitions as used in this survey. To begin with, although there are no universally accepted definitions of what constitutes an ―informal enterprise", there is consensus that they are small scale, and operate *outside registration and tax and frameworks*. They may pay tax when caught by tax authority, otherwise known for evading taxpaying and other required regularities.

1.6 Scope and Limitation of the Study

Even though large sample size is essential for in-depth understanding of the underlying causes of success or failures of Micro and Small Business, the study is limited to a sample size of 210 from population of 810 Enterprises those who achieved the 1.5 million capital level during the last ten years (1996-2006) at Federal level employment capacity within 6-30 employees. (see detail sample size here under). In addition to the above, this study is limited to Small Enterprises as defined by (FEMSEDA, 2003) as indicated above which shows the capital limit and human resource capacity.

To pass the defined human resource and capital level needs more recourse investment and time and this is not defined within the scope and limitation of this research. However; the study made full effort to enhance the quality of the enterprises responses by conducting in-depth interview with relevant stack holders, Owners, managers and in some enterprises certain senior employees as they are deemed essential.

In Ethiopia for Employment level (1-5) is categorized as micro, and 6-30 employment level is considered Small Enterprises, and the study is limited within this scope.

The Micro and Small Enterprises though they operate within a minimum capital 1.5 million, due to the various constraints such as financial and human, the study is limited to 210 Small Enterprises taken as sample size, and the scope of the study goes to the extent of examining all the constraints like Financial, market and market linkage, the availability of land for premises construction, availability of credit facilities, and checking the government policy environment

1.7 Significance of the Study

In Ethiopia like most developing countries, MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment, have demonstrated their powerful propellant effect for rapid economic growth. The MSE sector has also been instrumental in bringing about economic transition by providing goods and services, that are of adequate quality and are reasonably priced, to a large number of people particularly in rural areas, and by effectively using the skills and talents of a large number of people without requiring high-level training, large sums of capital or sophisticated technology.

The micro and small enterprise sector is also described as the natural home of entrepreneurship. It has the potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals.

Ethiopia the MSE (Micro and Small Enterprise) sector is the second largest employment-generating sector following agriculture. A National survey conducted by Central Satirical Authority (CSA) in 1997 and covering 48 major towns indicates that nearly 750,000 people are engaged in informal sector and small manufacturing businesses. This is a contribution of 3.4% to GDP and 33% of the contribution of the industrial sector and 52% of the manufacturing sector's contribution to the GDP of the year 1992/93. (Source: Ministry of Trade and Industry1997).

Micro & Small Enterprises caught the attention of development practitioners and policy makers recently not only because of its importance in terms of generating employment also because of various other attributes. Some of these are:

Micro and Small Enterprises are breeding ground for entrepreneurs.

The sector has high employment generating capacity, and is less capital intensive.

It is highly competitive, flexible, and innovative.

Giving a due attention for the growth and development of a country in this area is believed to be a high priority issue for reasons mentioned above. Recognizing its high significance, especially Ethiopia has to take initiatives in allocating budgets for research and development research studies in higher institution because it is so significant.

1.8 Data Collection Methodologies

1.8.1 Population, Sample and Sampling Techniques/ Sample size

The population of the study constituted the owners of 810 micro and small enterprises under different business sectors. Using stratified random sampling method, five sectors of MSEs are selected in order to obtain representative sample from different sectors. The strata of the sectors

Are (1) Manufacturing, under which metal and wood works, Machinery, Textile and garments, Leather and Leather products etc., are included, (II) Urban agriculture, (III) Trade, (IV) Service, Construction.

Due to time, cost and resource availability at the disposal of the researcher and the homogeneity of the population, 26% of MSEs were selected from overall sectors randomly using lottery method by taking list of operators of MSEs that are engaged in the five business sectors from FEMSEDA (MSEs) office. The lottery method gives equal chance for every enterprise to be represented in the sample. Finally from all sectors, 210 sample respondents' enterprises were selected. The summary of sample frame and sample size is presented in table1.

(FEMSEDA,2007) publication was a secondary source document to identify and randomly select samples from each category of Small Enterprises that are promoted during the last ten years(1996-2006). These are 810 micro and small enterprises under different business sectors. Five sectors of MSEs are currently recognized under the Agency as Small Enterprises. The strata of the sectors are (i) Manufacturing (ii) urban agriculture, (iii) Trade, (iv) Service (v) construction.

Table: (3)

Sample Size

SR.NO.	MICRO AND SMALL INDUSTRIES	TOTAL PROMOTED DURING (1996-2006)	SAMPLE SIZE and the % distribution considered
0	1	2	3
1	MANUFACTURING	465	120 or 26%
2	CONSTRUCTION	265	44 or 17%
3	SERVICE	46	16 or 35%
4	URBAN AGRICULTURE	16	14 or 87,5 %
5	TRADE	18	16 or 89%
	TOTAL	810	**210 or 26%**

Source: FEMSEDA 2007 publication.

a) **Total sample size =210 out of 810, which is 25.93%. or 26%**

b) The figure 810 is total No. of Small Enterprises that are promoted from Micro level to small level as per their promotion schedule. Promotion based on satisfying pre requirements, one of which is achieving 1.5million capital target. table____).

c) Manufacturing small industries are 465 out 810, which is 57.41%. Under Manufacturing there are other sub Small Industries, such as wood and metal works, Textile and Garments, Leather and Leather Products etc., others as indicated in above table___.

d) The data source is the Agency, 2007 Publication.

1.8.2 Sources and Types of Data

Both primary and secondary sources of data were used for the study. The secondary data include information that are obtained mainly from different reports at different levels, records, websites journals, articles, researches and other relevant literatures, which enrich the subject under study.

1.8.2.1 Primary Data

The primary data was collected directly from MSE Agency senior experts that are well oriented with the total micro and small Enterprises (MSE) environment and directly from the randomly selected 210 Small Enterprises.

Business activities that were similar in nature were grouped together for sampling purposes. The method mainly employed in primary data collections is in-depth personal interview, structured and unstructured questionnaires method. Unstructured questions were administered to the proprietors of Micro and Small Enterprises and sometimes senior employees as they call them managers, as deemed essential.

1.8.2.2 Secondary data

The secondary data sources for the study will include all publications of FEMSEDA, annual reports, their strategic plans, Central Statistics Authority (CSA), Addis Ababa Chamber of Commerce (AACC) and MOFED. Data from the CSA and AACC that will help to obtain crucial information that would enable this thesis a good paper. Secondary source data extensively use the vast resources from internet. Books, internet will be extensively accessed. Journals, publications, reliable unprinted materials will be used as secondary source data.

1.9 Organization of the Study

The paper is organized under five chapters. The first chapter deals with the problem and its approach, which includes background to the study, statement of the problem, research objectives, scope and limitations of the study, significance of the study and organization of the research report. The second chapter is exclusively devoted to the review of related literature on the need to identify critical success factors. Chapter three deals or based on empirical data findings, analysis and presentation of the findings., chapter four, presents the discussion and conclusions drawn from the findings, Chapter five is the recommendations made to address the problems uncovered, particularly the republic of Korea experience will be taken up as a case study in research. All the reference materials used in the study are listed under bibliography

Chapter Two: Review of Related Literatures

2.1 Historical Perspectives of Infant Industry Protection Policy

The concept of infant industry argument starts with the theory of trade protectionism. Almost every currently developed country has used protective trade barriers at some point in time. As per the explanation of (Marchand, B.U. (2008), following the Industrial Revolution of late 1800s and early 1900s, today‘s developed nations, such as United States, Canada, England, and Germany, protected their manufacturing industries against global competition. As per the above writer, developing countries used protection as an industrialization strategy when their primary export markets slowed down due to the Great Depression in the 1930s (Ibid p3).

This oldest and most popular rationale of protectionism is also called the infant industry argument. The first known reference to the argument was written by John Stuart Mill in 1848, as the above writer further explains, (Mill, 1848), who laid out two conditions under which it would be successful. First, the industry should have the potential to be able to eventually operate without protection. Second, the protection should be removed once the industry achieves competitiveness. (Ibid: 4).

In view of (Shaeffedin, 2000)[8] Infant industry argument is attributable to Alexander Hamilton, who initiated the debate on industrialization through infant industry protection in 1791, and argued for the protection of United States industries vis-à-vis imports from Great Britain in his official reports to the American Government, The first Tariff Act of the United State regarded to have elements of protectionism was that of 1789. Hence, the United State was the motherland of infant industry protection as an economic theory and as a tool of trade and industrialization policy ((Ibid). As to the background of this argument, whether it started some 200 or 250 years back, it is still a contentious issue in this globalized world. The current industrialized world passed through import substitution industrialization (ISI) but this path is both criticized and presumed failure.

Import Substitution industrialization (ISI) by definition is trade protection, and trade protection meant applying tariffs and trade on certain selected or on the whole domestic produces. Why Import substitution is a failure is the fact that Trade liberalization, (free trade), (D.Aredo et al. 2008), can lead to increased efficiency of domestic economic sectors depending on: a) the level and extent of initial protection of a given sector; b) degree of openness of a sector i.e. whether the sector is export-oriented or not; and c) the capacity of a given sector to compete against imports (Ibid).

Other researchers like (Haward Pack and Kamal Saggi, (2006), the most popular (and the simplest) version of the Infant Industry protection argument, as they explain the production costs for newly established domestic industries in a country may be initially higher than those of well-established foreign competitors due to their greater experience, Haward Pack and Kamal Saggi, (2006), in their version of infant industry argument as one of the oldest arguments for trade protection and is perhaps the only such argument that is not dismissed out of hand by trade economists.

2.1.1 **The Choice between Free Trade and Protectionism**

Other writers like Lu (2011), as a critical opponent of trade protection, explains that Infant Industry argument, raises the question of trade liberalization, in this Industry protection argument why LDC's protect their industries against more developed country's industrial goods, why countries apply tariffs and quotas as an instrument in trade and above all why countries trade among each other is the gain from trade (Lu, 2011), explains his view in his book ―Free Trade or Protection.?" Trade is an engine of growth. He stresses that the contribution of international trade is so immense that few countries could become self-sufficient even with the greatest effort (Ibid). As per (Lu, 2014) the principle of comparative advantage demonstrates that):

> *For the world as a whole free trade leads to a higher level of output and income than no trade (autarky). Free* trade also enables each nation to obtain a higher level of production and consumption than can be obtained in isolation. Under perfect competition, free trade achieves a worldwide allocation of resources that meets the principle of comparative advantage demonstrates that for the world as a whole free trade leads to a higher level of output and income than no trade (autarky). Free trade also enables each nation to obtain a higher level of production and consumption than can be obtained in isolation. Under perfect competition, free trade achieves a worldwide allocation of resources that meets the Protection of an industry creates gains for some and losses for others (Ibid p70).

But on the other hand proponent of Infant Industry protection like (Gibbs, 2007), further explains, the instruments behind protection, the tariffs and quotas, as two of the crucial ingredient of industrial policy. This writer argues that some underdeveloped countries who adopted free trade policy applied lifting of tariffs and quotas, bringing the following argument:

> a) They may lead to a surge in imports meaning lifting of the tariff and quotas, forcing domestic competitors out of business and causing increased unemployment in developing countries. Those losing their jobs as a result the Ethiopian Trade policy with lifting of trade barriers, with strong import substitution and export promotion strategy, are unlikely to find any alternative employment and many will sink below the poverty line. As a personal view point, it is easy to observe the present case of Ethiopia (Ibid).

b) Tariff cuts can result in a reduction of government revenue, the government with fewer resources for fighting poverty and for other social programs. Hence in his view, there should not be cuts in tariffs and quotas.
c) Tariff reductions may undermine industrialization policies in developing countries industrialization in the bud") by exposing industries to competition before they are strong enough to compete in the world (Ibid).

2.1.2 **Why Nations protect their Domestic Industries from International markets**?

Firms in developing countries, (Nathan, 2004**)** argues, cannot compete against foreign counterparts without the protection afforded by tariffs and non-tariff barriers. At least in theory, protection gives infant industries the opportunity to prepare for freer trade by becoming more productive through protection. Though this argument remains widespread and convincing in many developing countries, it cannot stand on theoretical grounds alone, but must be checked against empirical evidence the writer argues (ibid).

Free Trade or Protection

- ✓ The proponents of Infant industry protection raise the question that they may lead to a surge in imports meaning lifting of the tariff and quotas, forcing domestic competitors out of business and causing increased unemployment in developing countries.
- ✓ Tariff cuts can result in a reduction of government revenue, the government with fewer resources for fighting poverty and for other social programs. Hence in his view, there should not be cuts in tariffs and quotas.
- ✓ Tariff reductions which is actually opening up the door for domestic industries for international market competition, may undermine industrialization policies in developing countries industrialization in the bud") by exposing industries to competition before they are strong enough to compete in the world (Ibid). These are not simple issues to be overlooked, and on the other hand those who oppose protection argue that:
- ✓ **Fr**ee trade as engine of growth, (Lu, 2011), explain why they oppose trade protection:
- ✓ *Free trade leads to a higher level of output and income than no trade (autarky).*
- ✓ *Free* trade also enables each nation to obtain a higher level of production and consumption than can be obtained in isolation.
- ✓ Under perfect competition, free trade achieves a worldwide allocation of resources that meets the principle of comparative advantage demonstrates that for the world as a whole free trade leads to a higher level of output and income than no trade (autarky).
- ✓ Free trade also enables each nation to obtain a higher level of production and consumption than can be obtained in isolation.

- ✓ Under perfect competition, free trade achieves a worldwide allocation of resources that meets the Protection of an industry creates gains for some and losses for others (Ibid p70).

(Marchand, 2008) quotes John Stuart Mill in 1848, who laid out two conditions under which protection would be successful. First, the industry should have the potential to be able to eventually operate without protection. Second, the protection should be removed once the industry achieves competitiveness (Ibid). At this point for the sack of argument what should be raised is in view of the above writer is, Small Industries should first be protected and then under protection period it has to achieve the stage of competitiveness and then protection should be removed. But the question is after how long, because if it did not achieve this stage what should the government do? Another question is the removal of protection by itself is believed to be bringing improved performance of domestic industries through efficiency improvements and through cost reductions explains (D. Aredo et. Al 2008) as this writer explains in his terms implies trade liberalization, and this trade liberalization is likely to lead to faster economic growth vis-à-vis protectionist policies (ibid).

A complementary policy component to infant industry protection in export oriented industrialization the above writer further explains is export promotion. This component stimulates export and allows the infant industry to have access to international market, while Infant industry protection policy allows the new domestic firm to grow strong. For industrial policy to be effective it has to be complemented by competition policy, as some regulations are required for the competition among domestic firms and simultaneously, as there is a need for policy to protect the domestic firms from intrusion of foreign firms in their market(Ibid).

2.2 **Tariffs and Quotas in Enhancing the Growth of MSE**

As a proponent of Infant Industry protection (Gibbs, 2007), further explains, the instruments behind protection, the tariffs and quotas, as two of the crucial ingredient of industrial policy, albeit an important one. The tariff reductions have usually been implemented as conditions for World Bank/IMF structural adjustment loans and programs, which are by nature temporary Tariffs reductions can impact the achievement of the MDGs in at least three ways (ibid).

a) They may lead to a surge in imports meaning lifting of the tariff and quotas, forcing domestic competitors out of business and causing increased unemployment in developing countries. Those losing their jobs as a result the Ethiopian Trade policy with lifting of trade barriers, with strong import substitution and export promotion strategy, are unlikely to find any alternative

employment and many will sink below the poverty line. As a personal view point, it is easy to observe the present case of Ethiopia (Ibid).
b) Tariff cuts can result in a reduction of government revenue, the government with fewer resources for fighting poverty and for other social programs. Hence in his view, there should not be cuts in tariffs and quotas.
c) Tariff reductions may undermine industrialization policies in developing countries ("nip industrialization in the bud") by exposing industries to competition before they are strong enough to compete in the world (ibid)

.

The above writer clearly indicates that there should be no lifting of tariff and quotas, for detail reason he mentioned above.

As per (Lu, 2014) the principle of comparative advantage demonstrates that):

> *For the world as a whole free trade leads to a higher level of output and income than no trade (autarky). Free* trade also enables each nation to obtain a higher level of production and consumption than can be obtained in isolation. Under perfect competition, free trade achieves a worldwide allocation of resources that meets the principle of comparative advantage demonstrates that for the world as a whole free trade leads to a higher level of output and income than no trade (autarky). Free trade also enables each nation to obtain a higher level of production and consumption than can be obtained in isolation. Under perfect competition, free trade achieves a worldwide allocation of resources that meets the Protection of an industry creates gains for some and losses for others (ibid p70).

The fact is that at initial stages of development (Gibbs, 2010), tariffs and quotas are required, but the need for tariff protection changes, as countries move up the ladder. At the first stage, tariffs are required to develop domestic labor intensive consumer goods industry but needs to be gradually eliminated (ibid).

2.3 Import substitution Industrialization policy for Growth MSE sector

Trade protection, or in other words import substitution industrialization strategy, as nations followed in their earlier periods of industrialization, (Pahariva, 2008) stresses, do no good at this globalized world. However, the writer argues, about the benefits of the export promotion

(EP) strategy and he states, lie in its ability to do away with the drawbacks of import substitution (IS) which is currently opposed by IMF because it inhibits investment (ibid).

The main advantages of export promotion (EP) in his view, and why it should be stressed is because**,** as per (Pahriva, 2008) argument is it overcomes the smallness of the domestic market and allows a developing country to take advantage of scale economies; production of manufactured goods for export requires and stimulates efficiency throughout the economy and the expansion of manufactured exports is not limited (as in the case of import substitution) by the growth of domestic market (ibid).

The writer extensively explains about Efficiency and Scale economies: A Case for Export Promotion (EP) Strategy:

> The benefits of the EP strategy lie in its ability to do away with the drawbacks of Import Substitution (IS). The main advantages of EP strategy are: it overcomes the smallness of the domestic market and allows a developing country to take advantage of scale economies; production of manufactured goods for export requires and stimulates efficiency throughout the economy; and last, the expansion of manufactured exports is not limited (as in the case of Import substitution) by the growth of domestic market.

(L. Gudissa, 2013), explains the fact that, import substitution strategy, is widely used by many countries in the 1950s and 1960s, was the major approach for economic development. The import substitution strategy is also known as infant industry argument. The objective of this strategy is basically to protect the infant domestic producers from foreign competitors. The term ―infant" is used to indicate that the strategy is basically intended for the industries that are at their initial stage of production, and it also means that the protection is not forever. This is important point in the researcher‘s view as pointed above. The above writer further indicated that, as the average cost of production at the initial stage is high, they (infant industry), cannot withstand the strong international market competition(Ibid).

However, if they are sufficiently protected at this earlier stage, they will have the opportunity to grow to the level of achieving economies of scale, the stage at which their average cost is lower and where they can also compete with the imported foreign products. This is the core point of all the issues in the view of the researcher. When they reach such a stage, the protection tariff can be avoided. Accordingly, the protection of infant industries can lead to the growth of the industrial sector, the structural transformation of the economy, and thereby to the economic development (Ibid).

As (D. Aredo,et. al 2011) explain, trade liberalization can lead to increased efficiency of domestic economic sectors depending on: a) the level and extent of initial protection of a given sector; b) degree of openness of a sector i.e. whether the sector is export-oriented or not; and c) the capacity of a given sector to compete against imports. In addition, it is very likely that export-oriented and import-dependent industrial sectors benefit most from trade liberalization efforts (ibid).

2.4 Summary of divergent arguments:

As we came through those different views, it is most likely leads to infant industry protection at its initial stage as most current developed economies chose to pass in their economic development paths, but should be strongly supported by export promotion strategy as the East Asian countries like Korea effectively controlled their development path to be line with export oriented manufacturing industries than import substitution Industrialization (ISI).

I. A new industry which has a potential comparative advantage may not get started in a country unless it is given temporary protection against foreign competition**.** Most often, the argument stresses the necessity of protected domestic markets that will offer an opportunity for economies of scale in production. Local manufacturers to get competitive Protection would enable with foreign manufacturers who already enjoy economies of scale. Aside from economies of scale, protection would also afford local producers the time to improve their skills in management, production, marketing and the application of technology. Once competitive strength was built up, protection would be abandoned for free trade.(ibid).

II. But the argument is how free trade can enable each nation to obtain a higher level of production and consumption than can be obtained in isolation. The writer did not show the way small industries achieve that status. Let us another argument in favor of free trade.

III. Trade Liberalization in view of (D. Aredo et. Al 2008).Trade liberalization is likely to lead to improved performance of domestic industries through efficiency improvements and through cost reductions. Further explains the above writer: This implies that trade liberalization policies are likely to lead to faster economic growth vis-à-vis protectionist policies (ibid).

IV. A source named as (UK ESSAYS, 2008) explains the fact that It is a necessary condition, because newly emerging firms in developing countries need some policy to help them grow strong and to safeguard them from intrusion of foreign firms in their market, that have a negative effect on their growth. Infant industries in developing countries can mainly be protected through import tariff mechanism, which reduce imports from the rest of the world and raises demand and production of domestic product. This protection enables the domestic firms to cover their higher production costs and to remain in business. Depending on the nature of the firm, infant industry protection strategy will help the domestic firms to produce efficiently and to be competent in international markets (ibid).

V. And still the argument goes this way: First, unless An infant Industry is protected at its infant stage, as one of the proponents, like D. Aredo 2et.al 2008, put it: **How t**rade liberalization is likely to lead to improved performance of domestic industries through efficiency improvements and through cost reductions pur the logic in a clear doubt. Further explains the above writer: This implies that trade liberalization policies are likely to lead to faster economic growth vis-à-vis protectionist policies cannot be accepted in view of the following writers:

VI. Writer called (Nathan, 2004) **stresses the fact that** Firms in developing countries, cannot compete against foreign counterparts without the protection afforded by tariffs and non-tariff barriers. At least in theory, protection gives infant industries the opportunity to prepare for freer trade by becoming more productive through protection (ibid).

VII. As (L. Gudissa, 2013), critically observe the following the fact: The fact is that import substitution strategy, is widely used by many countries in the 1950s and 1960s, was the major approach for economic development. The import substitution strategy is also known as infant industry argument. The objective of this strategy is basically to protect the infant domestic producers from foreign competitors. The term ―infant" is used to indicate that the strategy is basically intended for the industries that are at their initial stage of production, and it also means that the protection is not forever(ibid).

This is important point in the researcher‘s view as pointed above. The above writer further indicated that, as the average cost of production at the initial stage is high, they (infant industry), cannot withstand the strong international market competition(Ibid).

However, he continues to explain, if they are sufficiently protected at this earlier stage, they will have the opportunity to grow to the level of achieving economies of scale, the stage at which their average cost is lower and where they can also compete with the imported foreign products (Ibid).

VIII As defined in Wikipedia, the free encyclopedia, defines the infant industry argument is an economic rationale for trade protectionism. The core of the argument is that nascent industries often do not have the economies of scale that their older competitors from other countries may have, and thus need to be protected until they can attain similar economies of scale. Many countries have successfully industrialized behind tariff barriers. For example, from1816 through 1945, tariffs in the USA were among the highest in the world. According to Ha-Joon Chang, "Almost all of today‘s rich countries used tariff protection and subsidies to develop their industries (ibid).

IX Another important view which is ever more scientific and acceptable is what writer (L

Gudissa, 2010)[60] correctly put it. He projected the following idea:

The import substitution strategy, widely used by many countries in the 1950s and 1960s, was the major approach for economic development. The import substitution strategy is also known as infant industry argument. The objective of this strategy is basically to protect the infant domestic producers from foreign competitors. The term ―infant" is used to indicate that the strategy is basically intended for the industries that are at their initial stage of production, and it also means that the protection is not forever. As their average cost of production at the initial stage is high, they cannot withstand the strong international market competition. However, if they are sufficiently protected at this earlier stage, they will have the opportunity to grow to the level of achieving economies of scale, the stage at which their average cost is lower and where they can also compete with the imported foreign products. When they reach such a stage, the protection tariff can be avoided. Accordingly, the protection of infant industries can lead to the growth of the industrial sector, the structural transformation of the economy, and thereby to the economic development (Ibid).

In the above summary conclusion part, what (D. Aredo et.al 2011) tried to point out defining trade liberalization, it sounds very much for the researcher particularly the point the above writers stresses:" points when the writer stresses the fact that, for the trade liberalization to be able lead to increased efficiency of domestic economic sectors depends on the capacity of a given sector to compete against imports really senses a lot for a developing country like Ethiopia , Micro and Small Industries let alone compete against imports, it has problems of competitiveness, efficiency, productivity, etc.(ibid). Hence what role does trade liberalization play for Ethiopia?

2.5 Ethiopia's Industrialization policy VS MSE growth

Before directly going to answer the above question, it is important to see the concept itself in depth. Generally speaking, as some writers like (T. Altunburge, 2010), (L Gudissa, 2010) stress the fact that, import substitution strategy is also known as infant industry argument. The objective of this strategy is basically to protect the infant domestic producers from foreign competitors. The term ―infant" is used to indicate that the strategy is basically intended for the industries that are at their initial stage of production, and it also means that the protection is not forever. The average cost of production at the initial stage is high.

In Ethiopia, a vast majority of employment opportunities are secured through Micro and Small Industries, however, (EDRI, 2014), this sector is largely unknown. What one can deduce from these findings is that less attention is being given to this sector and by implication it meant there is no ass such a policy that protects infant industries from East Asian products currently being imported in large scale with relatively lesser price because of their economies of scale production. Empirical research findings revealed the complaints obtained from Small enterprises during 2015 survey, that there is capacity limitation to withstand the dominance of East Asian products, everywhere in Ethiopia (ibid).

Most probably this may be a reason why Micro and Small Enterprises in Ethiopia are currently underperforming. One good proof for this the fact as indicated in (table________) we can observe the fact that from (1996-2006) total enterprises both Micro and Small that are created are 1,144,041 and out of which only 3141 or 0.28%only achieved the capital level which is 1.5million earmarked for promotion from Micro to Small Industry level which means the rest are still in Micro category. The industrial policy of the country is obviously Import substitution and export promotion industrialization which is applied to medium and large scale industries but not Micro and Small industries.

When we observe the Republic of Korean development trajectories, this country successfully used Micro and Small Industries as a springboard for successive industrialization growth, and this Korean success can be emulated by Ethiopia.

(T. Altenburge, 2010), in his book" Industrial Policy in Ethiopia" stresses the importance behind Productivity growth as a precondition for increasing people's living standards and maintaining competitiveness in the globalized economy. Low total factor productivity is the key reason for persistent poverty in developing countries. The productivity gap separating poor and rich countries has never been as deep as it is today. Poor countries in particular thus need to emphasize productivity growth to alleviate poverty. The challenge is not only to develop more productive ways of doing business in already established activities but also to accelerate the structural transformation from low-productivity activities in agriculture petty trade and skill-extensive services to new activities that knowledge-intensive and exploit the advantages of inter-firm specialization (Ibid).

T. Altenburge further explains its findings based on certain statistical findings: The vast majority of Ethiopia's firms are micro and small. According to the 2003 survey of the Central Statistics Authority, 1.3 million persons were engaged in the micro enterprise manufacturing sector, 94.2% of whom were own-account workers. Only 98,000 persons were employed in ―small" (larger than micro) manufacturing enterprises. The micro and small firms sector of the economy is mainly a sector of self-employment. 55% of the micro enterprises in manufacturing activities produced food and beverages, 23% textiles and garments. 85% of the businesses in the small scale manufacturing sector are grain mills. ((ibid p9).

Labor-intensive industries are seen as more appropriate than capital-intensive Industries due to Ethiopia‘s factor endowment. The Industrial Development Strategy talks mainly of agro-processing and garments as potential candidates. However, the strategy paper recognizes that low labor productivity seriously constrains export competitive- ness. It states that while salaries are two to three times lower than they are in China, productivity is five to seven times lower. Taking Ethiopia‘s conditions as a landlocked country into account, the prospects for attracting outsourced tasks in global value chains (typically garment assembly in export processing zones) are dim. What remains are activities that are resource-based *and* use cheap labor, such as the foot- wear industry (ibid p9).

Four specific economic sub-sectors are identified in the Industrial Development Strategy (textile and garment industry; meat and leather products industry; agro-processing industry; construction industry). All of them are agriculture-based and/or labour-intensive. Specialized institutes and/or training programmers have been created for each of the sectors. Tilman Altenburge, 2011 p19).

What is critical about the Infant Industry Protection Policy of a developing country like Ethiopia is the need for intensive review of selecting the strategy before taking the historical initiative of choosing between Infant Industry Protection or what is called Trade Protection and the Free Trade Policy though a clear choice for an agrarian society like Ethiopia, where industrialization is at its infant stage, the choice between the two economic paths would be simpler in view of the researcher, after all the above literatures in two economic thoughts. Of course neither of the two rejects the fact that there should be certain limited period of time till the infant industry has grown to maturity and until it is ready to withstand competitions from

external products. Another very crucial element not to forget is the Export Promotion engagement by a country side by side with import substitution Industrialization (ibid 19).

In general (MOFED,2012), the productivity level in Micro and Small Industry sector even though there are some encouraging achievements regarding micro and small-Scale enterprises development, the high level of poverty and unemployment in urban areas as well as the low level of productivity and competiveness of the enterprises still remain to be huge challenges(ibid). The whole of the above literature review different views will be discussed in depth in chapter four discussion sections.

Chapter Three: Empirical Evidences, Data Analysis, and Interpretation

3. Background of Infant Industry/MSE/ in Ethiopia

Ethiopia has scored double-digit growth in the past 10 consecutive years and this has been witnessed in various internationally accredited institutions like IMF, UNDP etc. though the question of the double digit is usually contested, in one fact or the other, the strength of the argument is they all agree to one evidence that the country is one of the fastest growing economies in the world. These achievement is not without obstacles that usually confronted by many other developing economies in Africa.

The significance of the contribution of Micro and Small Enterprises (MSEs) to the national development goals in general and to the local economy in particular, is being recognized increasingly in many developing countries including Ethiopia. Therefore, closer attention is being paid to the factors that promote the growth and development of this sector. However recent studies indicated that MSEs in Ethiopia are confronted by many problems. Hence this study has been designed to assess the opportunities and challenges facing micro and small enterprises sector, Factors that are impediments to the growth the sector, the challenges they face for their sustainability taking into account of both internal and external factors. It will also probe into what opportunity this sector has to grow to medium level manufacturing industry in Ethiopia.

To be specific, the various challenges faced by the country with regard to the growth and development of Infant Industry. The following Challenges as the Agency mention are taken from the secondary source data, (FEMSEDA, 2006 Eth.C.) publication:

- The major challenges in the sector are lack of entrepreneurial capability of the MSEs operators and poor technical and technology support in the sector as a whole;
- The gap between the demand and supply of credit service,
- Weak saving culture,
- Limitation of the outreach of micro finance institutions(MFIs) capacity
- Budget constraint to prepare working premises for MSEs,
- Miss utilization of working premises,
- Poor productivity and less quality product
- Lack of access to market for their product and services,
- Lack of entrepreneurial capability
- Lack of market information due to poor information technology utilization and Poor managerial skill. Of course these points are not the only impediments to the country's infant industry growth. However, one thing should be clear is that no country in this world

whether developed or developing, have by-passed their Infant Industries development, and achieved or can achieve the planned target.

Hence, MSEs need to be given special attention and support for growth and development. Government and non-government organizations and the public are expected to play a major role in promoting, supporting and strengthening the Micro and Small Enterprise (MSE) sector.

3.1 Introduction

3.1.1 The Size and Characteristics of Ethiopia's MSE sector

3.1.1.1 The Size of MSE Sector

Ministry of Trade and Industry defined micro enterprises as business enterprises found in all sectors of the Ethiopian economy with a paid-up capital of not more than Birr 20,000 (National Currency equal to 1150 USD) but excluding high-tech consultancy firms and other high-tech establishment while Small Enterprises are defined as business enterprises with a paid-up capital of more than Birr 20,000 but not more than Birr 500,000 but excluding high-tech consultancy firms and other high-tech establishments Micro and Small Enterprises Development Strategy, (MSEDS, 1997).

Table: (4)

Characteristics of MSEs

	PARTICULARS	EMPLOYMENT LEVEL	ATTAINED CAPITAL LEVEL
Small enterprise	**Industry**	**6-30 (Employees)**	**≤ birr 1.5 million ($9000 or E70000)**
	SERVICE	**6-30 (Employees)**	**≤ birr 500,000($30000 or E 23000)**

Source: FEMSEDA, 2006, 2015 **survey.**

Of course this definition of the Enterprise should have been expired by 2014/2015 due to the fluctuation or depreciation of Birr.

According to the Central Statistical Authority(EDRI, 2014) quotes (CSA, 2009) and (R.Ravannadan2012) survey, there are almost 570,000 MSEs in Ethiopia, 99.4 per cent of which are micro-enterprises with fewer than ten employees, accounting for 88.2 percent of private sector employment. On average, they employ one and a half workers (this includes the owner and perhaps one occasional helper), and earn an annual operating surplus of 1,300 Birr. Sole proprietors operated 82 percent of urban enterprises. Of the total employment in these urban micro-enterprises, family members accounted for 60 per cent. Beyond family members, apprentices constituted a large proportion of the remaining MSE‘s work force (ibid p130).

Table (5): The improved definition of MSE is presented in the following table.

Level of the enterprise	Sector	Human power	Total asset
Micro enterprise	Industry	≤ 5	≤ 100000 ($6000 or E4500)
	Service	≤ 5	≤ 50,000 ($3000 or E2200)
Small enterprise	Industry	6-30	≤ birr 1.5 million ($9000 or E70000)
	Service	6-30	≤ birr 500,000($30000 or E 23000)

SOURCE: STRATEGIC PLAN-FEMSEDA, (2011).

In this introduction section, it is found to be worth mentioning what some contributors like (Yejoo Kim, 2011). This writer stresses the fact that the contributions of Micro and Small Enterprises to the development of national economy are ‗immense'' in his word. He continues to stress the importance of MSEs:

3.1.1.2 **The Characteristics of the MSE**

Small- and medium-sized enterprises (SMEs) are considered the engines of growth in developing countries. In developed countries, SMEs have historically played a vital role in creating jobs, spurring innovations, and creating new products, and thus contributed to economic vitality and growth. Taking these experiences into account, African countries should not overlook the importance of promoting SMEs in the same regard. However, considering the situation of most African countries, there are several impediments that have to be removed in order for SMEs to flourish. Recently, the strong presence of Asian SMEs in Africa have created increasing competition and negatively affected local SMEs.

In support his facts, this writer further brings the case of South Africa, explaining this country as, the most economically developed African country, SMEs generated more than 55% of all jobs and

22% of the country‘s Gross Domestic Product (GDP), by the way as some web site like (**africaneconomicoutlook.org., 2013),** indicate Ethiopia‘s manufacturing sector contribution to GDP is 4.1% in 2008, and 3.9% in 2013. Further this writer continues to mention Ethiopia where as he puts it ―many local SMEs complain that regulation is too tight" as a result of which as he puts it, ―they (Micro and Small Enterprises) feel that it is too difficult to obtain a license. Additionally, proof of premises and requirements for large amounts of capital and high qualifications stifle growth. SMEs are also heavily taxed. This makes it difficult for SMEs to emerge from the local sector‘.

In Ethiopia, The contribution of the agriculture sector to the overall economy is slightly declining, while the share of industry is still at its infancy level. Although, the growth performance of the industrial sector during the two GTP years were above the PASDEP five year average, the predominantly narrow industrial base has hindered the sector not to go beyond 10.85 percent of GDP on the average during the first two GTP years. Emphasis should be given to strengthen the existing employment opportunity creation; enable citizens to earn higher income by engaging in permanent jobs and enterprise promotion, MOFED further citing the usual worry in the country, i.e. Productivity and competitiveness problem. Mentioning as a remedy the Increase in productivity and competeviness of the enterprises and transform the successful enterprises to medium and large scale industries (MOFED, 2013).

He further mentions the cases of developed country like Germany and The Asian Tiger Korea: In newly industrialized Asian countries, SMEs have become the driving force in their rapid growth. For example, SMEs account for 99% of all enterprises and 88% of all employees in South Korea.

In the case of developed countries, for example Germany, the economy is characterized as having strong SMEs and about two-thirds of the workers are employed by these enterprises (ibid).

MICRO AND SMALL ENTERPRISES ACCOMPLISHMENTS AS PER GTP FOR PERIODS COVERING (1990-2006)

WITHIN THESE PERIODS THE GRADUATION FROM MICRO TO SMALL ENTERPRISE LEVEL IS ACCOMPLISHED IN FOUR PHASES.

Table (6) :

SR. No	PERIOD COVERED	ENTERPRISES CREATED NATIONAL LEVEL.	ENTERPRISES PROMOTED AT EACH PHAS AT NATIONAL LEVEL		ENTERPRISES PROMOTED IN EACH PHASE AT REGIONAL LEVEL	ENTERPRISES PROMOTED AT EACH PHASE AT A.A. LEVEL
A	B	C	D	E =D/C*100	F	G
1	1ST ROUND PERIO(1991-2003)	135,897	276	0.21%	26	250
2	2ND ROUND PERIOD(2003-2004)	217,641	428	0.20%	315	113
3	3RD ROUND PERIOD(2004-2005)	295,092	695	0.24%	445	250
4	4TH ROUND PERIOD(2005-2006)	495,411	1742	0.36%	1545	197
	TOTAL	1,144,041	3141	0.28%	2331	810

SOURCE: FEMSEDA AND UNDP REPORT "MESERET" PUBLICATION TER, 2007 ETH C.

It is important to notice the evidence obtained from the above secondary data retrieved from the Agency's document and further data compilation, from (1991 to 2006), there are 1,144,041 micro and small industries created in Ethiopia. As Shumete G. Medhin indicated in his research, from the above huge figure a very large number is roadside trade or what are normally called as informal sectors.

From the above table, as extracted from the secondary source , it is clearly put as simply ‗Enterprises created' and it did not separate how many are informal and how many are formal. The point considered in this study is the number of Enterprises promoted to medium level with raised capital of 1.5million, and those enterprises achieved this status at national level are only 3141 and are 0.28% of that total 1,144,041 and further what we can observe from this fact is the various hindering factors that impeded the growth of Micro and Small Industries in Ethiopia because the promotion achievement is only 0.28% as we see above.

This is to show that Ethiopia's MSE sector, with all its employment potentials has not grown to its appropriate level for various reason Internal and external as mentioned in details here under.

3.2 Empirical Evidence: Challenges facing MSE Sector

3.2.1 Findings of the Primary Data

A survey was conducted and responses were obtained from each category of the enterprises and summarized in the following manner.

Table(7): Respondents Data

SR.NO.	MICRO AND SMALL INDUSTRIES	TOTAL PROMOTED DURING (1996-2006)	SAMPLE SIZE	RESPONDENTS	% RESPONSES OUT OF TOTAL Sample Size	NON-RESPONDENTS/REJECTS/	NON RESPONDENTS % OUT OF NO.2.	% OF RESPONDENTS IN EACH INDUSTRY
0	1	2	3	4	5=110*4/3	6	7	8=4*100/2
1	MANUFACTURING	465	120	110	91.66%	10	7.33%	23.88%
2	CONSTRUCTION	265	44	40	90.91%	4	9.09%	15.00%
3	SERVICE	46	16	14	87,50%	2	12,50%	30.43%
4	URBAN AGRICULTURE	16	14	13	92.85%	1	7.15%	81.25%
5	TRADE	18	16	13	81.25%	3	18.75%	72.22%
	TOTAL	810	210	190	90.47%	20	9.52%	

SOURCE: RESEARCHER'S CALCULATION, 2015 survey.

3.2.2 Findings of the Secondary Data

Productivity growth in view of (T. Altueburge, 2010), is a precondition for increasing people's living standards and maintaining competitiveness in the globalized economy. Low total factor productivity is the key reason for persistent poverty in developing countries. The productivity gap separating poor and rich countries has never been as deep as it is today. Poor countries in particular thus need to emphasize productivity growth to alleviate poverty. The challenge, T. Altenburge further explains, is not only to develop more productive ways of doing business in already established activities but also to accelerate the structural transformation from low-productivity activities in agriculture petty trade and skill-extensive services to new activities that are knowledge-intensive and exploit the advantages of inter-firm specialization (ibid).

Micro and Small firms rarely ever grow into a medium-sized segment, reflecting a lack of entrepreneurial and managerial capability (FEMSEDA, 2003), When micro entrepreneurs are successful, they often prefer to diversify into new activities rather than to develop and expand their respective core activity (ibid.).

Shumete G/medhin, (2013), explains about MSE: A recent study on MSEs indicated that MSEs in Ethiopia are confronted by many problems. The constraints facing MSEs are similar to most developing economies: unfavorable legal and regulatory environment and, in some cases, discriminatory regulatory practices; lack of access to markets, finance, business information; lack of business premises at affordable rent; low ability to acquire skills and managerial expertise; low access to appropriate technology; and poor access to quality business infrastructure (ibid).

3.3 Factor Affecting Micro and Small Enterprises in Ethiopia

From the survey, what is learned about the hindering factor that draws back the development of Micro and Small Enterprises can be divided into two major parts, and these are:

3.3.1 **The Internal Factors**

3.3.1.1 **The Various Factors**

Respondents showed their disagreement for line items under 5&6.

Table (8): Responses For Various Questionnaires

Sr.No	PARTICULARS	**Strongly agree**	**Agree**	**Disagree**	**Strongly DISAGREE**	**I don't Know**	**Sample respondent**	**Response in % out of 190 respondents**
		1	**2**	**3**	**4**	**5**	**6**	**7**
5	Due to Non-affordability of business license	25	34	21	58	20	78	41%
6	Time consumed in registration and licensing	16	23	25	73	13	86	45%

Table (9):

FACTORS AFFECTING THE SUCCESS OF INFANT INDUSTRIES IN ETHIOPIA

Sr.No	PARTICULARS	Strongly agree	Agree	Disagree	Strongly DISAGREE	I don't Know	Sample respondent	Response in % out of 190 respondents
		1	2	3	4	5	6	7
1	Division of duties and responsibilities available	49	70	18	20	21	119	62.64%
2	High employee turnover/ high labor mobility.	61	53	30	25	19	114	60%
3	Possibility of getting well trained & experienced employees in the market.	51	72	19	35	14	123	64.74%
4	Low cost and accessible training facilities or un affordable training facilities Available	23	19	73	41	17	114	60%
5	Dependence on family and relatives for labor	66	71	28	31	12	137	72.11%
6	Personal problems (health, social) of owner/manager related to absenteeism.	16	29	45	76	15	121	63.69%
7	Experience in management or business leadership.	31	22	57	81	12	138	72.64%
8	Market supply of Skilled manpower for strategic business planning or knowledge in business planning.	26	33	62	77	13	139	73.16%

Source: 2015 survey

The survey procedures and instructions data are compiled in the same way as indicated above.

- Only the shaded parts of the responses are selected because it shows the main area where there are impediments to the growth of the Infant Industry sector.
- The ―I don't Know" part is not considered in the data compilation part.

What can be deduced from the above compiled response are the following. It shows that respondents have agreed to the following facts:

- Division of duties and responsibilities available
- High employee turnover/ high labor mobility.
- Possibility of getting well trained & experienced employees in the market.
- Dependence on family and relatives for labor

The other side of the responses indicated that they disagreed to the following points

These are:

- Low cost and accessible training facilities or affordable training facilities
- Personal problems (health, social) of owner/manager related to absenteeism.
- Experience in management or business leadership.
- Market supply of skilled manpower for strategic business planning or knowledge in business planning.

In addition to the above writer, there is other hindering or holding back trade development. In words of Habtamu (2007), lack of strategic business planning, lack of low cost and accessible training facilities, lack of experience in owning / managerial a business and lack of well trained & experienced employees in the market is impacting the performance of MSE. In support of this, among the various factors listed as managerial factors, it is only lack of experience in managing the business, lack of strategic planning, overemphasis on short term profit and failure to take risks that challenges their sustainability. Among this significant factors, both lack of experience and lack of planning also evidenced in the previous findings. And the above result shows in one way or another, the problems are associated with lack of training and entrepreneurial skill. Entrepreneurial skills help the MSEs owner/manager to build a confidence in their business activity by taking a failure as an experience. May be through time they can learn to take risks. If MSE owners get access to training, they will develop the skills and methods of business planning: (Feyissa, Narrowing Trade Deficit 2011 p 63). The important point is the empirical findings also revealed the same response.

3.3.1.2 **The Financial Constraint**

The MSEs feel that the interest rate and service charges are very high given the business environment MSEs Face. However in a focus group discussion held with the management of Addis Saving and Credit Share Company, they said that interest rates are set in such a way that business and social roles of the company are met. They feel the interest charged is below the rate charged by other financial institutions. Lack of financial literacy on the part of MSEs and weak screening of MSEs, poor loan follow up mechanisms and inadequate branch networking and human capital related problems of MFIs have hampered the growth of the sector.

Ethiopia‘s financial sector remains small, fragmented and lacks depth. The financial sector is not able to offer adequate and competitive services on the scale required. This is a major impediment to the expansion of productive activities, especially for SMEs, and development of export capacity. The private sector considers inadequate access to risk capital and credit as major impediments to doing business. **Source:** April 2011 African development bank group. **Ref 110 p54/152.**

The following primary data was obtained when respondents were asked about the financial constraints they face if any.

Table (10):

FINANCIAL MICRO INDUSTRIES DEVELOPMENT IN ETHIOPIA

Sr.No	PARTICULARS	**Strongly agree**	**Agree**	**Disagree**	**Strongly DISAGREE**	**I don't Know**	**Sample respondent**	**Response in % out of 190 respondents**
		1	**2**	**3**	**4**	**5**	**6**	**7**
1	Credit facilities and sources Availability	31	37	53	68	16	121	63.69%
2	Record keeping and documentation No resource problem	20	25	57	75	13	132	69.48%
3	No cash flow and management analysis problem	19	23	67	71	9	138	72.64%
4	Effective Management of Current Assets (like inventory, A/R)etc.	22	24	75	51	10	126	66.32%
5	High investment in fixed assets during start-up time	68	74	22	36	11	142	74.74%
6	No practical problems to analyze financial statements	18	31	53	72	17	125	65.79%
7	Planned withdrawal of cash for personal use.	27	24	55	84	18	139	73.16%
8	Effective Utilization of company assets (space, machines etc.	23	31	59	81	14	140	73.69%
9	Availability of working capital	30	28	52	69	17	121	63.69%

Source: Compiled from 2015 survey.

Most business people failed to track of their daily transactions and cannot account for their expenses and their profits at the end of the month. From the empirical evidence gathered, many enterprises luck basic bookkeeping knowhow.

Besides:

- *Many of the owners violate the business entity concept mixing the property, revenue and expense of the business with their own personal property.*
- *Funds were put to personal use and thus used in settling personal issues. This has a negative impact on profitability and sustainability.*

Some owners/managers employ family members simply because of kinship relations. In some cases these leads to repaid failure of business.

- *It is emphasized that the importance of proper record keeping is that it enables a small business to have accurate information on which to base decisions. Such as projecting sales and purchases or determining the breakeven point and making a wide range of other financial analysis. This lacks in MSEs*
- *Persistent lack of proper records leads to the closure of many businesses. In fact this is one of the areas that the researcher will be interested to assess (Mulugeta, 2008).*

The performance of MSE, as R. Ravaadan, explains, is affected by lack of financial record keeping and documentations, insufficient provision for contingencies, high investment in fixed assets particularly during start up stage, inadequate estimated capital requirements, inability of failure to analyze financial statements, misperception of turnover as profit, and underutilization of venture assets or better to put as underutilization of resources. High investment in fixed assets means that a huge sum is unnecessarily tied up in fixed assets (ibid).

The above facts are proved true upon empirical research findings as shown in the above table___, and this lack of knowledge in especially financial management and accounting knowledge creates one of the biggest impacts on the life of enterprises based on profit.

3.3.1.**3 Educational Level**

Table (11):

EDUCATIONAL LEVEL OF THE RESPONDENTS OWNERS/MANAGERS OF THE ENTERPRISES

. SR. NO.	ENTERPRISES	STATUS/EDUCATIONAL LEVELS/					TOTAL IN THE INDUSTRY
		PRIMARY (1-8)	SECOND .TO 12	COLLEGE CERTIFICATE	COLLEGE DIPLOMA	UNIVERSITY DEGREE	
A	MANUFACTURING						
1	WOOD AND METAL WORKS	----	6	6	18	8	38
2	LEATHER AND LEATHER PRODUCTS	___	5	8	4	3	20
3	APPAREL AND GARMENTS	5	3	4	3	5	20
4	URBAN AGRICULTURE	3	4	___	4	3	14
5	TRADE	1	8	2	___	2	13
6	SERVICE	1	4	2	5	1	13
7	FOOD PROCESSING	3	6	3	4	4	20

B	CONSTRUCTION (INCLUDING ALL TYPES OF INPUTS-CONCRETE BLOCKS, BRICKS, TERRAZO TILES, CONCRETE TUBS PRODUCTION, SUB CONTRACTOR, COBBLE STONE PRODUCTION ETC.)	4	9	10	12	5	40
	TOTAL	17	45	35	50	31	178

SOURCE: **2015 survey data**

What we can observe from the above table is the owners and managers of these enterprises who responded, around 52 are grade 12 and below, which actually indicate that it needs great effort to change their educational status for the purpose of enhancing the growth of the MSE sector.
There were complaints during the time this data was being compiled especially focusing on lack of on job training for Skill development area etc. this level of training will not help the growth of MSE, considering the East Asian tiger‘s growth miracle. The researcher will take this issue in Chapter IV. But to highlight the difference between the East Asian Tigers and Ethiopia, The East Asians particularly South Korea which is the researcher case study, gave a top priority for R&D, and high quality education. This is to cite that the quality and level of education can determine management efficiency, in both administrative and financial controls.

3.3.2 The External problems

3.3.2.1 The Various Factors (Like Shortage of premises, capital etc.)

The following responses were obtained when asked about factors that mainly affect the growth of the sector.

Table (12):

FACTORS AFFECTING THE SUCCESS OF INFANT INDUSTRIES IN ETHIOPIA

	HINDERING FACTORS	TOTAL ENTERPRISE CONFIRMATION IN EACH FACTOR	PERCENTILE OUT OF THE TOTAL SAMPLE SIZE of	% RESPONDENT OUT 210
1	LACK OF PREMISES	111	210	52.86%
2	LACK OF CREDIT FACILITIES TO EXPAND THE ENTERPRISE	98	“	46.67%
3	LACK OF CAPITAL	110	“	52.38%
4	NON AVAILABILITY OF RAW MATERIALS	107	“	50.95%
5	UNFAIR COMPETETION	124	“	59.05%
6	MARKET ISSUES LIKE LINKAGES PROBLEMS	106	“	50.47%
7	LACK OF APPROPRIATE TRAINING	61	“	29.05%
8	OTHER MISC. ISSUES LIKE CORRUPTION, MISMANAGEMENT OF FINANCE ETC.	54	“	28.42

Source: survey report, 2015

It is to be noted that the points put in the questionnaire like: a) availability of premises, b) availability of credit facilities for Enterprises expansion, c) Availability of capital, d) Availability of raw material, e) availability of fair competition, f) availability of market linkages, g) availability of training facilities), and under raw (8) issues like petty corruptions are crucial elements that enterprises mostly complain about. It is forwarded to respondents in order to measure the gap between those countries in the upper level of growth and development like for example the East Asian countries and less developed country like Ethiopia. In other wards what steps they have taken in those crucial areas for their development trajectories. In (Table___) we have observed the number of responses those questionnaires.

It is believed that there are other prevailing hindering factors like External or Internal that inhibit the growth of Micro and Small Industries in developing countries like Ethiopia.

With an intention to identify what other external factors affect the growth of the MSE sector, the following questionnaires were developed and put forward in a way that is relatively easy to answer, just to identify if there are such external hindering factors like: A) presence of intense domestic or foreign competitions B) Non conducive Environment if any, C)Capacity to compete (other resources), D) Rapid and costly technological changes E) Non-affordability of business license F) Time consumed in registration and licensing G) Cultural impact : values, norms towards work activities at lower level. H) Existing government policies. The following responses were obtained to questions, like,"what are factors affecting the growth of MSE", intentionally indicating lists of factors so that the respondents can easily tick the main constraints they think their problem.

3.3.2.2. **Other External Factor Affecting MSE growth**

Table (13):

EXTERNAL FACTORS AFFECTING MICRO INDUSTRIES DEVELOPMENT IN ETHIOPIA

Sr.No	PARTICULARS	**Strongly agree**	**Agree**	**Disagree**	**Strongly DISAGREE**	**I don't Know**	**Sample respondent**	**Response in % out of 190 respondents**
		1	**2**	**3**	**4**	**5**	**6**	**7**
1	**Intensity of competition**- 1.1 domestic 1.2 foreign	51	78	16	20	19	129	67%
2	Climate conditions not conducive with the nature of my enterprise.	56	65	33	19	17	121	63%
3	**Inability to compete with foreign firms/products**	48	66	21	36	12	114	60%
4	Rapid and costly technological changes	56	71	32	18	14	127	66%
5	Due to Non-affordability of business license	25	34	21	58	20	78	41%
6	Time consumed in registration and licensing	16	23	25	73	13	86	45%
7	Cultural impact: values, norms towards work activities at lower level.	58	63	27	25	8	121	63.69%
8	Existing government policies are not encouraging	55	63	19	13	4	118	62.11%

Source: Survey report, 2015.

What can be deduced from the compiled above data are:

- Existing government policies are not encouraging
- **Intensity of competition**- 1.1 domestic
  1.2 foreign
- Climate conditions not conducive with the nature of my enterprise.
- Inability to compete with foreign firms/products
- Rapid and costly technological changes
- Cultural impact: values, norms towards work activities at lower level.

3.3.2.3. **Market Access Factor**

One of the major problem areas in underdeveloped economies like that of ours is the availability of domestic market access. Market access is one of the main areas of focus in literatures, when we come to development problems of least developed countries like Ethiopia.

The following question was forwarded to respondents especially in Micro and Small manufacturing industry area

The question forwarded was if they believe that the products they produce is such area of wood and metal works, leather and leather products, food processing, and Apparel and garments etc., have market problems. The following responses were obtained.

Table(14):

market problems for your products?

Sr. No.	Responding Enterprises	RESPONSES		Out of 210 sample size	Percentile response out of 210
		YES	NO		
A	MANUFACTURING			110	
1	WOOD AND METAL WORKS	19	20		
2	LEATHER AND LEATHER PRODUCTS	12	8		
3	APPAREL AND GARMENTS	13	6		
4	FOOD PROCESSING	5	15		
	Total(Manufacturing) response	44	49	93/110	93or 84.55%
4	URBAN AGRICULTURE	4	9	13/14	13 or 92.86%
5	TRADE	4	9	13/16	13 or 81.25%
6	SERVICE	9	3	12/16	12 or 75.00%
B	CONSTUCTION INDUSTRY SECTOR DID NOT REPLY	______________	_____________		
	TOTAL_________________________	67	70	137	65.24%

Source: researcher own calculation, 2015 survey.

From the empirical evidence one can observe this fact behind the responses obtained is that overall responses appear to be even. But most inclined towards “No”.

3.3.2.4 **Complex and Burdensome Government Regulations**

Since this topic is one of the most talked about issues in underdeveloped economies like Ethiopia, selecting this point for questionnaire, will have its contribution is finding the source of the problem, and also finding solution is believed to be important. Certain industries, prefer to divert its own problem on the government, others may be truly blaming the authority for its failure.

Table (15): **Government policy environment**

SR. No .	INDUSTRY	RESPONSE YES I believe	NO, I don't believe	SAMPLE	% ILE RESPOND ENTS
A	MANUFACTURING				
1	WOOD AND METAL WORKS	31	8	40	100%
2	EATHER AND LEATHER PRODUCTS	16	4	20	100%
3	APPAREL AND GARMENTS	14	5	20	95%
4	URBAN AGRICULTURE	14	—	40	
5	TRADE	13	—	13	100%
6	SERVICE	16	—	13	81.25%
7	FOOD PROCESSING	17	3	20	89.06%
B	CONSTRUCTION. AND INPUTS(CONCRETE HOOLOW BLOCKS,RICKS,TERRAZO TILES, CONCRETE TUBES, COBLE STONE PRODUCTION ETC.)	**30**	**10**	**40**	**75%**

Policy Environment

Table___ Questionnaire If Gov't policy is a hindrance or positively contributed towards the development of the Infant Industry Sector. Your answer should be ―Yes I believe" or ―No I don't believe"

3.3.2.5 **Conduciveness of policy environment**

Table (16):

On Government Policy Environment conduciveness

. SR. No	INDUSTRY	RESPONSE YES I believe	NO, I don't believe	SAMPLE	% ILE RESPOND ENTS
A	MANUFACTURING				
1	WOOD AND METAL WORKS	31	8	39	100%
2	LE ATHER AND LEATHER PRODUCTS	16	4	20	100%
3	APPAREL AND GARMENT	20	5	25	
4	FOOD PROCESSING	17	3	20	
	Total Manufacturing	**76**	**20**	**96**	

5	URBAN AGRICULTURE	14	__	40	
6	TRADE	13	__	13	100%
7	SERVICE	16	__	13	81.25%
B	CONSTRUCTION. AND CONSTRUCTION COBLE STONE PRODUCTION ETC.)	30	10	40	75%
	N.B 80% OF THE RESPONDENTS REPLIED GOV'T RULES AND REGULATION SUPORTS THE SECTOR DEVELOPMENT.	150	30		
		78.95	15.79%		

From the responses obtained, what can clearly by observed is that in the manufacturing sector:

a) 76 out 96 respondents in the manufacturing sector Enterprises which is 79.17% believed that there are Complex and Burdensome Government Regulations that needs reform.

b) Urban agriculture, Trade and Services all considered there are Burdensome Government Regulations.

c) In Construction sector too, respondents reply was 30 out of 40 respondents believed that there is Burdensome government regulations that has to be reformed.

3.3.2.6 **The Nature of Linkage Relationships**

In one Small Industry cluster in Merkato a place customarily called "Ras Emiru Industry Mender" what has been observed was the unfitness of this cluster. This center hosts about 138 micro and small industries most of Which were making house hold furniture and fixtures, cupboards, Sofas etc., only four were using laze machine for rehabilitating obsolete parts for grain mills, the rest 134 small industries were hastily producing those items furniture and fixtures, then running to merkato just in search of customer. Almost 50% of the goods produced were with quality problems as observed by the survey team. Another thing is of course the demand for those furniture and fixtures and the supply of proper quantity and quality, thus indicating a clear problems of market linkages, because there should have been orders placed before production started and those producers should have had clear knowledge about for who they are producing.

Market Economic policy helped to promote the growth and development of Micro and Small Industries in Ethiopia. This is another question forwarded to the respondents.

Table_(17): DO YOU BELIEVE OR NOT(Market policyConduciveness)

SR. NO.	INDUSTRY	RESPONSE	
		YES I BELIEVE	NO I DON'T BELIEVE
A	MANUFACTURING		
1	WOOD AND METAL WORKS	20	19
2	LEATHER AND LEATHER PRODUCTS	11	9
3	APPAREL AND GARMENTS	9	11
4	URBAN AGRICULTUR	14	__
5	TRADE	12	1
6	SERVICE	13	0
7	FOOD PROCESSING	17	3
B	CONSTRUCTION INPUTS(HOLLOW BLOCKS TION,BRICKS.CONCRETE TU PRODUCTION ETC.)	28	12

Source: 2015, researcher survey.

Table (18): STATUS OF THE RESPONDENTS IN THE ENTERPRISES

SR. NO.	TYPES OF ENTERPRISE	STATUS		OUT OF 210 sample size,
	MANUFACTURING	OWNERS	MANAGERS	
1	WOOD & METAL WORKS	20	18	38
2	LEATHER AND LEATHER PRODUCTS	15	5	20
3	APPAREL AND GARMENTS	15	5	20
4	URBAN AGRICULTURE	9	5	14
5	TRADE(COMMERCIAL ACTIVITIES)	10	3	13
6	SERVICE	8	5	13
7	FOOD PROCESSING	20	-------	20
8	CONSTRUCTION AND ALL ITS INPUTS(BLOCKS.BRICKS, CONCRETE TUBES, COBLE STONE PRODUCTION, TERRAZO TILES, SUB CONTRACTORS)	25	15	40
	TOTAL	132	55	187 OUT OF 210SAMPLESIZE.

N.B 64.21& ARE OWNERS AND 30% ARE MANAGERS OF THE ENTERPRISES RESPONDED. THE REST 23 DID NOT WANT TO REPLY.

SOURCE: 2015 survey data. RESEARCHER'S CALCULATION.

Table (19): Level of Employment and Gender composition of the Enterprises

SR. NO.	TYPES OF ENTERPRISE	STATUS		OUT OF 190 RESPONDENTS
A	MANUFACTURING	MALE	FEMALE	
1	WOOD & METAL WORKS	477	94	571
2	LEATHER AND LEATHER PRODUCTS	123	179	302
3	APPAREL AND GARMENTS	113	128	241
4	URBAN AGRICULTURE	75	56	131
5	TRADE(COMMERCIAL ACTIVITIES)	57	31	88
6	SERVICE	46	28	74
7	FOOD PROCESSING	88	112	200
B	CONSTRUCTION AND ALL ITS INPUTS(BLOCKS.BRICKS, CONCRETE TUBES, COBLE STONE PRODUCTION, TERRAZO TILES, SUB CONTRACTORS)	628	299	927
	TOTAL	1607	927	2534

SOURCE: **2015 survey**

Regarding the employment capacity of the above indicated sample 190 Enterprises have shown an employment capacity of 2534 monthly and casual laborers during (1996-2006), ten year period. Since the researcher sample is 24%, if 100% considered it would amount to approx. 10,558 people that 810 enterprises employed the last ten years. It is very important to note here is the 810 Enterprises are only those graduated or promoted to medium level enterprises for achieving 1.5 million capital earmarked for graduation or promotion requirements. There are those not achieved the promotion requirements and remained at micro and small industry level. Refer table18 shown hereunder. (See last column of the table). Considering the gender aspect of MSE employment, 36.59% are women which are clearly below 50:50 averages to men.

CHAPTER FOUR: Discussion and Summary Conclusion

4.1 The discussion part: Assesses MSE growth perspective in Ethiopia

In the following pages in depth discussion has been made as to why and how, developing economies like that of Ethiopia should protect their infant industries, what should the nature of their industrial policy should look like in order to take appropriate measures, to enhance productivity, competence in international market. What is meant by Proper Industrialization policy and on what environment it depends, Workers' shortcomings in knowledge and education were also found to be significant. Many authors have recognized the lack of management skills as one main problem in MSE.

This is of course an internal problem of the Enterprises themselves. The MSE are susceptible to business failure primarily due to the poor risk management associated with inadequately informed decision-making is Internal Problem (ibid).

To ensure accelerated and sustained industrial development (MOFED, 2013), the main focus will be on industries that are labor intensive, have broad linkages with the rest of the economy, use agricultural products as inputs, are export-oriented and import substituting, and contribute to rapid technological transfer. In other words stated in the above document i.e. (MOFED, 2013), the key strategic direction of industrial development will be micro and small scale industrial development (ibid).

For example writers like Habtamu (2007), and (Feyissa, Narrowing Trade Deficit 2011 p 63). explain the fact that, lack of strategic business planning, lack of low cost and accessible training facilities, lack of experience in owning / managerial a business and lack of well trained & experienced employees in the market is impacting the performance of MSE. In support of this, among the various factors listed as managerial factors, it is only lack of experience in managing the business, lack of strategic planning, overemphasis on short term profit and failure to take risks that challenges their sustainability (ibid).

The constraints facing MSEs in most developing economies are similar: As (Mulugeta, 2008), ―..unfavorable legal and regulatory environment and, in some cases, discriminatory regulatory practices; lack of access to markets, finance, business information; lack of business premises at affordable rent; low ability to acquire skills and managerial expertise; low access to appropriate technology; and from poor access to quality business infrastructures (ibid).

Despite its importance, (EDRI, 2014), the size of the Ethiopian MSE sector is less known. The

MSE sector is a key target sector but its current size or performance in terms of its contribution to GDP, Employment and Export and total manufacturing output is largely unknown. What should Ethiopia's industrialization strategy look like under the above circumstances, are some of the main discussion areas in this section.

Whereas there is still prevailing evidence that shows that there is forward and backward linkage problems wither industry and agriculture, and identifying the sources of all these problems that impede the growth of the MSE sector in Ethiopia, more or less critical points raised here under.

Sources like (UK essays, 2010), (T. Altenburge, 2011), and of course many other writers stress the fact that one of the key indicators, of economic development of a country, is its level of industrialization. That is, as many empirical investigations proved the main reason for increased divergence in living standards between the advanced countries and the developing countries is their level of industrialization.

Not only Industrialization, but export-oriented Industrialization (EOI) often termed as export led industrialization (ELI) as in the case of Korean industrialization growth trends, is a policy designed for the purpose of speeding up the industrialization process of a country through exporting goods for which the nation has a comparative advantage (ibid).

The above paper further reveals the following facts:

- Appropriate trade policy is known to be one of the key tools used for effective export oriented industrialization and for economic development, in general. That is, the better trade policy a country has, the better chance it has for industrial diversification, creating value added products and getting more income from export,
- A proper industrial policy is (the writer quoted (Suranovic, 2002).is also another important tool for effective export oriented industrialization, as a country's industrialization depends on how individual domestic firms are protected. This is because, it is individual firms that innovate and harness technological change and compete in the world market, the essay quoted, ((ibid).
- The basic policy component of industrial policy for developing countries is Infant industry protection. It is a necessary condition, because newly emerging firms in developing countries need some policy to help them grow strong and to safeguard them from intrusion of foreign firms in their market, that have a negative effect on their growth.
- Infant industries in developing countries can mainly be protected through import tariff mechanism, which reduce imports from the rest of the world and raises demand and production of domestic product. This protection enables the domestic firms to cover their

higher production costs and to remain in business. Depending on the nature of the firm, infant industry protection strategy will help the domestic firms to produce efficiently and to be competent in international markets. As in the case of Ethiopia, it seems the Micro and Small Enterprises sector has been relatively neglected and the support of the government seems to be inclined towards medium and large Scale Industries as the cases of Leather and Garment Manufacturing Industries clearly shows relative provision set for these Manufacturing Industries. These are External problems for the Micro and Small Industries sector.

From survey, findings 2015, the researcher obtained facts from secondary data of (FEMSEDA, 2007) publication(Table___), revealed the fact that out of 1,144,041 enterprises created during the last ten years(1996-2000), only 3141 enterprises were promoted for achieving the earmarked 1.5 million birr capital, and this figure is only 0.28% of the total enterprise created. Of course the 3141 figure do not only represent Manufacturing Micro and Small Enterprises but also food processing, Trade, Service and Urban Agriculture. So it means only 465 Small Manufacturing Enterprises other than those mentioned above (Food processing, Urban Agriculture, Trade and Service) that are promoted at Federal level (table__). The question that is poised for further examination is why are those Enterprises that achieved 1.5million capital are so limited to 0.28 % in the last ten or so years?.(ibid).

Another External Problem or factor is as (Helena Forsman, 2005)in her research paper entitled ―Case Study of Business Development Projects Implemented in SMEs" revealed as she explains, typical problems in MSEs are a lack of resources, money, technology and time.

The referred researcher found in the research carried out that the most common internal obstacles to productivity improvements in SMEs are the lack of time and a general lack of resources. Workers' shortcomings in knowledge and education were also found to be significant. Many authors have recognized the lack of management skills as one main problem in MSEs (ibid).

This is of course an internal problem of the Enterprises themselves. The SMEs are susceptible to business failure primarily due to the poor risk management associated with inadequately informed decision-making is Internal Problem (ibid).

This writer referred (Nooteboom 1994) who proposes that particularly in the small business much of the operating knowledge is tacit, and that is connected to the craftsmanship. By tacit knowledge he means the knowledge typically acquired in learning by doing. Often the person is even not aware that she or he has that knowledge.

Furthermore, in the small business the knowledge tends to be shallow, meaning that there are no functional specialists. The above research findings are exactly what has been when primary data was obtained. The researcher stresses, that the required special knowledge can be compensated by supplementing it from external sources (ibid).
It seems, the internal problems that entrenched with as mentioned by the above writer is much more than the External factors (ibid).
Most small business owners start their own business on their knowledge to produce something, which they have gained e.g. as production managers. Such persons are interested in the techniques, and their typical problems lie in the marketing. Also, taking care of financial matters and accounting is difficult for them. They lack the skills of interpreting the various calculations and the balance sheet. Also pricing and making budgets are difficult for them the writer further quoted (Hyvärinen 1993).
From the above findings of the writer (Helena Forsman, 2005) , it is clear to certain extent that any center of development, be they Micro and Small Industries or macro projects, the question of professionalism, higher qualification in specific field of study no doubt is a necessity, though one country's development level, or level of economic development is a determinant factor for the supply of skilled labor.

This may be one of the challenges why MSEs in Ethiopia face and this is exactly the core of the problem identified upon the interview and responses to the questionnaires. For instance, concerning the educational levels of owners and managers of the Enterprises, Table __, and research findings disclosed the fact that 82.59% of the 178 respondents are only college diploma and lower certificates. They are evidently lacking the required planning, financial management, business management professional skills that are necessary for growth and development of the sector, and this factor naturally can damage the growth ambitions of the small businesses.
In Table___ the reply for the following questionnaire ―except investment in fixed assets during start-up time" the rest was a negative response.

- .Credit facilities and sources Availability
- Record keeping and documentation resource problem
- cash flow and management analysis problem
- Effective Management of Current Assets (like inventory, A/R) etc.
- practical problems to analyze financial statements
- Planned withdrawal of cash for personal use.
- Effective Utilization of company assets (space, machines etc
- Shortage or un-availability of working capital is some of the hindering factors, as per the

respondents.

Hence in effect, as we have seen above, that is why the growth of Micro and Small enterprises is seriously curtailed, meaning only 0.28% achievement of attaining 1.5 million capital.

Table _(20):

FACTORS HINDERING THE SUCCESS OF INFANT/MSES IN ETHIOPIA

	HINDERING FACTORS	TOTAL ENTERPRISE CONFIRMATION IN EACH FACTOR	PERCENTILE OUT OF THE TOTAL SAMPLE SIZE of	%
1	Supply OF PREMISES	111	210	52.86%
2	Availability OF CREDIT FACILITIES TO EXPAND THE ENTERPRISE	98	"	46.67%
3	Availability OF CAPITAL	110	"	52.38%
4	AVAILABILITY OF RAW MATERIALS	107	"	50.95%
5	UNFAIR COMPETETION	124	"	59.05%
6	MARKET ISSUES LIKE LINKAGES PROBLEMS	106	"	50.47%
7	Availability OF APPROPRIATE TRAINING	61	"	29.05%
8	OTHER MISC. ISSUES LIKE CORRUPTION, MISMANAGEMENT OF FINANCE ETC.	54	"	28.42

PRIMARY SOURCE DATA COMPILED BY RESEARCHER

Out of 210 sample size, 111 respondents out of 210 with 9 non response claimed that they lacked working premises for the business activities which is 52.86% of the total sample response.

46.67 % complained that they lacked credit facilities to expand their business activities. 52.38% revealed that they lacked capital for further expansion of their business, 50.95 expressed their dissatisfaction for lack of raw material to produce goods. 59.05% expressed their dissatisfaction for the existence of unfair competition among Enterprises. In the same manner, 50.47% expressed their dissatisfaction for lack of market linkage. Of course these shortages are not permanent problems. They may be resolved in short period, but for now the respondents claim it as a hindrance to the development of their MSE.

These are external factors that need government intervention for better environment regarding supply of premises, credit facilities, market issues like linkage problems, better policy environment for what they called if unfair competition, provisions of trainings which of course needs continuous scheduling, and devising a control means for petty corruptions in the supply market, controlling those corrupt traders bent on evading products and other materials needed as inputs for the Small industries and thereby creating artificial shortages in the market.

The East Asian countries particularly The Korean Republic as the researcher, presented in part two of this section, have paid especial attention to the growth of their small Industries at their infant stage.

The above problems as respondents provided, persisted despite the fact that the government, (MOFED, 2010, 2013) specifically declared that priority is and will be given to Micro and Small Industries Sector. For example:

To ensure accelerated and sustained industrial development (MOFED, 2013), the main focus will be on industries that are labor intensive, have broad linkages with the rest of the economy, use agricultural products as inputs, are export-oriented and import substituting, and contribute to rapid technological transfer. In other words stated in the above document i.e. (MOFED, 2013), the key strategic direction of industrial development will be micro and small scale industrial development (ibid).

Other important issues that are almost always raised in MOFED annual reports are the question of competitiveness and productivity that major hindering factors to the growth of Micro and Small Enterprises sector (MOFED, 2013) reports:

> *"... Yet urban unemployment remains a huge challenge, while the contribution of micro and small enterprises to overall economic growth falls short of expectations. In the coming years of GTP which was (GTP I,)implementation and overcoming those shortcomings and therefore, the primary focus has to be undertaking measures that increase the productivity and competitiveness of micro and small scale enterprises so as to ensure their rapid growth and thereby creation of better quality jobs and supporting accelerated economic growth(ibid p3).*

(Robert McIntyre 2001) stresses the fact that Small and Medium Enterprise (SME) sector carries great hopes and great burdens in the evolution of all of the transitional economies. Sustained and healthy growth of this sector is obviously necessary, since it is difficult to imagine rising overall living standards and social peace without such a development.

The key objectives of micro and small scale enterprises development program are to create a broad-based spring-board for the development of competitive domestic industries and private sector, create employment opportunities and thereby reduce poverty as Ministry of Finance and Economic Development (MOFED, 1012) **in its** Annual Progress Report for F.Y. 2011/12 Growth and Transformation Plan revealed. What we can deduce from the above mentioned problems is that, the fact that there are always strong policy declarations but, on the other hand the above mentioned problems persist to the sector in particular and to the nation's development program as a whole.

Other writers like (Shumete G. Medhin, 2013) explains the fact that currently, small businesses are identified as one of the main economic activities contributing massively in terms of capital, profit and employment generation in Ethiopia. These businesses include diverse economic activities, such as small industries and services, as well as local trading activities that include informal trade.

Despite its importance, the researcher notes, and cites (EDRI, 2014), the size of the Ethiopian MSE sector is less known. The MSE sector is a key target sector but its current size or performance in terms of its contribution to GDP, Employment and Export and total manufacturing output is largely unknown (ibid).

The above mentioned writer further explains:

> Main limitations and challenges facing small business is more complicated and relates with other issues. There are gaps to improve in the areas of license, registration, credit availability, taxations, price regulation, and infrastructure to conduct business. Besides, for long time little is known about the financial capacity, labor skill and assets that are owned by small business in Ethiopia. There are many research studies and publications that point out the drawbacks related to trade and business in the country. But, they are not sufficient to identify the root problems, and suggest ways to develop and modernize the small businesses (ibid).

In fact other writers like Habtamu (2007), and (Feyissa, Narrowing Trade Deficit 2011 p 63). explain the fact that, lack of strategic business planning, lack of low cost and accessible training facilities, lack of experience in owning / managerial a business and lack of well trained & experienced employees in the market is impacting the performance of MSE. In support of this, among the various factors listed as managerial factors, it is only lack of experience in managing the business, lack of strategic planning, overemphasis on short term profit and failure to take risks that challenges their sustainability (ibid).

The constraints facing MSEs in most developing economies are similar: As (Mulugeta, 2008), ―..unfavorable legal and regulatory environment and, in some cases, discriminatory regulatory practices; lack of access to markets, finance, business information; lack of business premises at affordable rent; low ability to acquire skills and managerial expertise; low access to appropriate technology; and from poor access to quality business infrastructures (ibid).

Despite its importance, (EDRI, 2014), the size of the Ethiopian MSE sector is less known. The MSE sector is a key target sector but its current size or performance in terms of its contribution to GDP, Employment and Export and total manufacturing output is largely unknown. Moreover, given the importance attached to the MSE sector and massive support extended, results are less known. During the consultation with MSE implementers including (FeMSEDA), these problems were acknowledged and the authorities stated to us that these are among the priority, (EDRI) quotes, (MOFED, 2006) (ibid).

The MSE sector is not only less known but (K. mogus 2008), Ethiopia‘s commodity structure of exports is also quite skewed. A handful of mainly raw agricultural products make up for the bulk of exports, thereby indicating the country‘s micro and small manufacturing industry export strategy is not in the picture at all. This implies that the country‘s export diversification chance apart from agricultural products including coffee, oilseeds, edible vegetables and vegetable products, hides and skins and to smaller extent gold, not to be seen in near future. These agricultural products account for over 80 percent of the total export. Similarly, few largely manufactured products including petroleum oil and oil products, machinery and equipment, electrical appliances, vehicles and cereals account for over half of the total import. As noted earlier, Ethiopia‘s trade balance has always been heavily in the negative and the structure of both exports and imports are highly skewed (ibid)

The East Asian countries especially Korea, as presented in the next section, have successfully implemented their export oriented drive for prosperity. Korea‘s economy was not only export oriented but also diversification was their grand motto.

Another important fact that critically demands export oriented small scale manufacturing industries is the question of trade integration among neighboring East Asian countries which made them prosperous and this is one of the weakest points that African countries like Ethiopia currently lack or it is very weak. This point is taken up in the recommendation section of this study.

East Asian Tigers economic (trade integration) as K. Mogus explains:

- *The bulk of South-South trade occurs among countries within the same region – Asia. Intra-Asian South-South exports in the same year amounted to $1.3 trillion, which is 79 percent of total South-South trade exports. This amount is also equivalent to 47 percent of its total export and 92 percent of its export to developing countries. Similarly, intraregional trade in L. America accounted for 16.7 percent of total exports or 61.7 percent of South-South exports of the region. In Africa, intraregional trade is least developed – accounting in the same year for only 9.4 percent of the region's total export or 31.3 percent of exports to developing countries, largely to Asia(ibid).*

Therefore, intraregional trade variation across regions is a reflection of the level of economic development. Similar to the case for a single economy, the higher the level of economic development of a region, the higher is the intensity of intraregional trade.(ibid).

(K.Mogus 2008) But, the fundamental factor limiting trade integration is the lack of trade complementarities. Ethiopia, the EAC and Sudan export largely homogenous products, except petroleum fuel from Sudan and some low technology manufactures from Kenya. Except for leather and leather products, Ethiopia has little natural resource advantage on which its export depends over the EAC and Sudan. As such, Ethiopia's export to these countries is highly limited and would remain so for a long time to come, until significant diversification takes place. For the same reasons, these countries import similar goods – manufactured products from advanced economies. Natural resource endowments of these East African countries are largely closely similar. Therefore, the degree of trade complementarities is quite low (ibid).

A fundamental principle governing growth and development of a nation is its potential to exploit its factor endowment. Ethiopia's factor endowment is agriculture and agriculture oriented production. Agriculture as Ethiopia's largest employment and foreign revenue earner is said to be largely traditional and depends on seasonal rain. Which meant growth sustainability is fragile. Ethiopia's GTP is based on Agriculture led Industrialization, the ambition for industrialization as we see from the growth trajectories of East Asian tigers, should be based on critically assessed planning that gives especial attention and priority to the nurturing of Micro and Small Enterprises rather than giving priority to medium and large scale industries. Currently, it is not the case in Ethiopia as we observed from the primary data obtained (survey report 2015).

The higher the degree of industrialization, (K.Mogus 2008 P12) the greater is complementarities between imports and exports of different economies. Export bundles of least developed economies are based on their respective natural resource endowments – such as coffee, cotton, coco, oil, copper, etc. The type of such endowments in a given area/country is largely limited (ibid).

Complementarities means that for example if Ethiopia has to expand trade with neighboring African countries, Ethiopia's export products should not be homogenous with Kenya's or Sudan's Export If they have to flourish their import export trade between themselves which is currently weak. This Idea is supported by some writers like K. Mogus, 2008. Complementarity is a necessary criterion for trade, but not a sufficient one. Another factor influencing trade integration is competitiveness – in this context referring to cost efficiency, i.e., productivity and marketing efficiency (ibid).

Trade integration among East African countries so weak? The prime factor is the lack of complementarities between the export bundles of one country and import bundles of another explained the above writer. Complementarities simply meant that commodities to be traded between two nations should not be homogeneous.

(As K Mogus, 2008) believed, Ethiopia will profit more if the country expanded the trade base with its neighboring African countries, than far eastern countries ((ibid 75). The reasons are:

- ✓ Transport cost to the port through Djibouti is high and is one of the major reasons why Ethiopia's manufacturing industrial products are not competitive, because of its distance and additional taxation by Djibouti as the goods pass through the country. This reduces the competitiveness of Ethiopia's product in international market.
- ✓ Since price is the major determinant factor for competitiveness, if suppose Kenya and Ethiopia produced the same quality product (X), Kenya will have better opportunity for market than Ethiopia, because of its proximity to the sea and ports of its own, since Kenya is not paying any additional tax for any other country.
- ✓ No neighboring African countries, except some distant African country like South Africa, enjoy economies of scale, i.e. large scale production with lower price. Hence, African countries products have almost similar price unlike European or East Asian products that are having by far lower price.
- ✓ The other reason why trade with African countries is preferable is that trade can be made at borders of both countries than going to a great length to sell manufactured products. The above facts some of most important reasons why Trade integration with African countries is indispensable. Ethiopia's Micro and Small or larger industries chances of growth depends on the above facts. This researcher opinion.

This is to bring further attention and fact that no country in the world can achieve growth and development without export trade earning from manufacturing industries be they small or large Industries. Export trade promotion is the prime factor in East Asian development trajectories. Ethiopia is in right direction in GTP, but the question is raising competitiveness in this sector is the main challenging issue in MOFED, 2010, 20112, 2013 etc. annual reports.

Hence Ethiopia will profit more if it the country expanded the trade base with its neighboring African countries, than far east countries and this can only be realized upon intensively working on developing the Micro and Small Manufacturing Enterprises and that gives the neighboring African countries the opportunity to free themselves from primary agricultural products dependency, and relief them from the increasing trade deficit.

What worries us all, the above writer explains, is how the country can stride forward with export oriented manufacturing industrialization strategy. The researcher here tries to reveal one important fact and that is the difficulty of mentioning all possible obstacles, or hindrances to

MSE development.

Export trade weakness between African Countries (As hindrance to MSE Dev‘t.)

Why is Ethiopia‘s trade integration among East African countries so weak?

the guiding element in economic development of a country is gain from international trade.. The prime factor is the lack of complementarities between the export bundles of one country and import bundles of another. The higher the degree of industrialization, the greater is the complementarities between imports and exports of different economies. Export bundles of least developed economies are based on their respective natural resource endowments – such as coffee, cotton, coco, oil, copper, etc. The type of such endowments in a given area/country is largely limited. Moreover, different countries may have similar natural resource endowments. This is typical of most East African countries. Except Sudan, whose main export commodity is petroleum oil, others – Ethiopia, Kenya, Uganda and Tanzania – largely export few (undiversified) and similar agricultural products and import manufactured goods. This is a typical case of absence of complementarities; there is little to trade among themselves (K.Mogus, 2008, p47).

Complementarity is a necessary criterion for trade, but not a sufficient one. Another factor influencing trade integration is competitiveness – in this context referring to cost efficiency, i.e., productivity and marketing efficiency. This is largely determined by technology, use of economies of scale, production and marketing organizational structure/skill, etc. But these factors clearly favor industrialized economies. Hence a least developed economy inevitably prefers to trade with advanced economies than otherwise. (Krbre Mogus, 2008 p47).

4.1.1 **Transaction and transport costs as impediments to MSE growth**

One of the major impediments to the growth of Ethiopia‘s MSE sector (Ciuriak (2010), explains the fact that, given that Ethiopia has tariff-free access to the world‘s largest economies, the European Union and the United States, and generally faces lower tariffs in other of its major markets than it applies itself, the major factors that account for the low trade share of GDP and the yawning trade deficit must be considered to lie in its domestic economic framework. The factors that hinder Ethiopia‘s exports particularly in micro and small industry sector, may be enumerated as follows:

(a) The macroeconomic policy mix: the use of the exchange rate as an external anchor for domestic price stability resulted in a steep rise in the real effective exchange rate through the 2000s, undermining the competitiveness of exports and of import-competing production.

(b) High trade costs: Ethiopia is one of the most difficult places in the world from which to engage in the global economy, ranking 123rd out of 155 countries in the World Bank‘s 2010 trade logistics survey and 159th out of 183 countries in terms of trading across borders in the World Bank‘s 2010 *Doing Business* survey. Contributing factors include:

- The complexity of the process for exporting and importing (8 documents required in each case, compared to a world minimum of 2 in France).
- The long time it takes to export and import even standard containers (49 and 45 days respectively).
- Slow and expensive transportation (road transport rather than rail and lack of seamless multimodal transport systems—most inward and outward bound containers are unstuffed/stuffed in Djibouti).
- Cumbersome customs procedures (a risk-based approach to customs inspections and international transit agreements to facilitate border crossings have not been implemented, resulting in multiple inspections en route).
- Several indirect effects of the large trade imbalance and high direct trade costs work to further raise trade costs, including: the number of empty containers leaving Ethiopia, which is factored into the cost of shipping; the high costs of importing add to the cost of production inputs which in turn reduces the competitiveness of exports; and long lead times for import and export are closely associated with heightened uncertainty concerning the exact amount of time that is required to import or export, which can be even more damaging for traders than the time costs themselves (ibid).

(e) Thick borders: Ethiopia‘s trade with its immediate neighbors is comparatively low in good measure because of the poor connections to the regional borders and inadequate border infrastructure; ignoring the special cases of Djibouti (for which trade statistics are distorted by inclusion of goods in transit) and Somalia as well as oil imports from Sudan, Ethiopia‘s two-way trade with its immediate neighbors in 2008 amounted to US$118 million, little more than one-fifth the amount that would be expected given the size and proximity of these economies.

(f) High tariffs applied by potential African partners: Ethiopia has good access to global markets due to zero tariffs in the major industrialized countries but still faces significant tariff barriers in its African trading partners, with a simple average of about 9.54% in the countries that are part of the Tripartite Free Trade Area (TFTA) negotiations. Source: (D.Ciuriak et al, 2011).

Ethiopia‘s Economic planners have to do a lot in order to ensure the growth of the countries Micro and Small Industry sector.

Given the high transport costs Ethiopia faces, as important as export promotion, will be effective import-substitution. Increasingly the productivity of these sectors will deliver more rapid growth, and may in some cases have a substantially more rapid impact on urban unemployment, especially if complimentary policies are adopted. Successful import substitution will also help reduce balance of payments pressures (ibid).

High trade costs as mentioned above, (Ciuriak et al., 2010), label the country as is one of the most difficult places in the world from which to engage in the global economy, ranking 123rd out of 155 countries in the World Bank‘s 2010 trade logistics survey, 159th out of 183 countries in terms of trading across borders in the World Bank‘s 2010 Doing Business survey. Contributing factors include: The complexity of the process for exporting and importing (8 documents required in each case, compared to a world minimum of 2 in France). The long time it takes to export and import even standard containers (49 and 45 days respectively. Obviously this mentioned condition makes the MSE sector growth low and weak.

4.1.2 **Land Locked ness as a Hindering Factor to MSE development**

Another major critical factor that is affecting Ethiopia‘s trade performance as critically analyzed in some international journals is revealed as being a land locked country.

> *In spite of technological improvements in transport, (Faye et al 2004), landlocked developing countries continue to face structural challenges to accessing world markets. As a result, landlocked countries often lag behind their maritime neighbors in overall development and external trade. While the relatively poor performance of many landlocked countries can be attributed to distance from coast, this paper argues that several aspects of dependence on transit neighbors are also important. Four such types of dependence are discussed: dependence on neighbors' infrastructure; dependence on sound cross-border political relations; dependence on neighbors' peace and stability; and dependence on neighbors' administrative practices. These factors combine to yield different sets of challenges and priorities in each landlocked country. The paper concludes with a brief set of policy recommendations. A detailed appendix presents maps and regional overviews that outline key challenges facing the landlocked countries in each Region (ibid p31).*

Another point for attention is Ethiopia‘s export amount in each topic which shows the non-competitiveness of the country‘s export sector. The reason will be discussed in this chapter conclusion part.

Landlocked countries are completely dependent on their transit neighbors' infrastructure to transport their goods to port. This infrastructure can be weak for many reasons, including lack of resources, governance, conflict and natural disasters. Regardless of the cause, weak infrastructure imposes direct costs on trade passing through a transit country and thus limits the ability of landlocked country products to compete in global markets. The relative impact of weak surrounding infrastructure is particularly severe for the least developed landlocked countries that mainly export primary commodities with low value to cost ratios rather than high value products or services. Weak transit infrastructure also limits the return to investment on landlocked countries' internal infrastructure, since market opportunities are constrained (ibid p44).

4.1.3 **Inefficiency in production attributable to Land locked ness**

(K. Mogus, 2008) stresses that Inefficiency in MSE growth and development in Ethiopia could be partly attributed to land locked ness, this may not be the case for Sudan or Kenya which are using their own ports. Moreover, unlike all other countries under consideration, Ethiopia and Uganda take more days to export than to import. Again while this may be due to land locked ness, it is inevitable that this may adversely impact on their competitiveness in foreign markets (ibid, p61).

Table (21): In global competitive index Ethiopia's position is not encouraging

Global competitiveness index			
Global competitiveness Index (GCI)	Year	Rank out of 148	Score (1-7)
	2013/14	127	3.5
	2012/13	121	3.6
	2011/12	106	3.8

Source: Global Competitive Index Report, 2014.

As one can observe from the above table, the reason why Ethiopia‘s competitiveness is declining.

K. Mogus in his research findings explains that, some perishable good like vegetables are currently being exported to Djibouti, and Djibouti on her part makes some value addition and re-exports to Middle Eastern and other countries as her own product. There are other great disadvantages regarding export trade competitiveness especially for Ethiopia‘s manufacturing Industry export trade, when the county tries to compete in international markets, and that are the inland transport costs, as mentioned by (Ciuriak et al., 2010) above.

4.1.4 The Need for Export Diversification

As a matter of fact, the growth and development of a country depends on how much it earns from foreign trade. The more export commodities are diversified, the more is the gain. Ethiopia's foreign trade earnings are currently based on Agricultural commodities and these are usually not sustainable because they depend on the demand of the other side. This is unlike The Asian and European manufactured industrial products that have always their demand in African markets and this not vice versa.

If Ethiopia has to change its strategy from Agriculture led industrialization to export oriented manufacturing Industrialization, strategy, as a late industrialization Ethiopia, cannot be competitive in the international market because they (Europeans and Asians) are of economies of scale and they currently enjoy their level of development. For this reason, Ethiopia's micro and small industries or major industries if to be exported oriented there should be trade integration with neighboring African countries and also seriously considering reducing transportation costs

4.1.5 Information, Communication Infrastructure Technology for Export Trade

The country should give a high priority to Information communication technology, because it is a determinant factor for export trade. Number of mainlines, mobile telephone, internet access, and quality of operation are found to be important components of trade communication infrastructure and determinants of trade costs. It is now much easier– and cheaper–than ever before to obtain information on foreign market conditions, product standards, and consumer preferences.

This should lower the costs of entering foreign markets, and promote trade at the margin. Empirical evidence estimates show that a 10 percent increase in the number of a country's web hosts is associated with an export gain of around 0.2 percent (Freud and Weinhold, 2004). The internet also significantly reduces the fixed costs of market entry, such as obtaining information on product requirements or preferences (ibid, p12).

Table –(22): Access to telecommunication services

Indicators	Ethiopia	Kenya	Sudan	Tanzania	Uganda
Fixed line and mobile phone Subscribers per 100 persons	3	31	20	21	14
Per 1000 persons means	30	310	200	210	140
Internet users (per 100 people)	0.4	8	9.9	1	6.5

Source: (K. Mogus 2008)quotes World Bank, World Development Indicators database, September 2008

The quality and coverage of infrastructure is low (K. Mogus, 2008)**,** even when compared to African peers. Infrastructure development is critical for Ethiopia to sustain its high growth, increase competitiveness and further reduce poverty levels. Presently, only 41% of the population has access to grid electricity, while at 44km/1000km^2 of land, the paved road density is among the lowest in SSA. In the *Bank's Infrastructure Index*, Ethiopia is ranked 52 out of 53 countries. The inadequacy of Ethiopia‗s infrastructure stems largely from resource and capacity constraints. The financing required to meet Ethiopia‗s infrastructure needs is massive, estimated at US$ 5 billion per annum. This is because one of the hindering factors for the growth of Micro and Small Industries is the underdeveloped infrastructure. The lesser the infrastructure network, the less competitive is Ethiopia's industrial products compared to Neighboring African countries (ibid).

As to (African Development Bank, 2011), research findings is of these groups the fact that Inadequate infrastructure is a major constraint to growth and poverty reduction in Ethiopia. Poor infrastructure services raise the cost of doing business, erode competitiveness, and limit access to markets, both domestic and foreign (ibid).

4.1.6 Corruption: An impeding factor to Growth and Development MSE Sector

Corruption, including bribery, raises the costs and risks of doing business. Corruption has a corrosive impact on both market opportunities on the broader business climate. It also deters international investment, stifles economic growth and development, distorts prices, and undermines the rule of law.

(Doing business in Ethiopia US country report 2014), reveals the following: State-owned enterprises and ruling party-owned entities dominate major sectors of the economy. There is state monopoly or state dominance in sectors such as telecommunications, power, banking, insurance, air transport, shipping, and sugar. Ruling party-affiliated "endowment" companies have a strong presence in the ground, transport, fertilizer, and textile sectors. Both state-owned enterprises and "endowment" companies dominate the cement sector (ibid).

State-owned enterprises have considerable advantages over private firms, particularly in the realm of Ethiopia's regulatory and bureaucratic environment, including ease of access to credit and speedy customs clearance. Local business owners as well as foreign investors complain of the lack of a level playing field when it comes to state- owned and party-owned businesses. While there are no conclusive reports of credit preference for to these entities, there are indications that they receive incentives such as priority foreign exchange allocation, preferences in government tenders, and marketing assistance. Ethiopia publishes aggregate financial data of state-owned enterprises, but detailed information is not included in the national budget, and few state-owned enterprises outside of Ethiopian Airlines publicly release detailed financial statements (ibid)

Party affiliated companies like that we see in Ethiopia contribute negatively than positively contribute and hence those authorities both party members and in commercial activities are probably a breeding ground for corruption, this is a researcher opinion.

(Rose–Ackerman, 2006), in her book entitled ‗international handbook on economics of corruption stated certain facts on corruption. The followings are her explanations: Corruption occurs where private wealth and public power overlaps. It is with a good reason the researcher paid attention to this problem is it severely contributes to the failures of economic plan.

The underlying economic incentives for corruption (Rose–Ackerman, 2006), in such areas as public works, the police, the judiciary, tax and customs collection, and procurement are common throughout the world. Yet the incidence and severity of the problem vary widely. Effective policy cannot just concentrate on catching and punishing ‗rotten apples'. Much has been made of the importance of moral leadership from the top, but this is not sufficient. Too much moralizing risks degenerating into empty rhetoric or worse, witch hunts. Policy must address the underlying conditions that create corrupt incentives, or it will have no long- lasting effects. The sorts of structural and incentive-based policy responses that are outlined here – both the successes and the failures – can guide governments that are genuinely committed to reform (ibid p39).

Corruption, as the above writer further explains particularly, **b**ureaucratic corruption leads to the misallocation of public resources. Public servants are appointed on the basis of nepotism or bribes, without regard to their efficiency or capacity. Once corruption is embedded in the bureaucracy, public servants create artificial bottlenecks as a means to extort ‗speed-money'. These bottlenecks are likely to reduce productivity and service quality. Bribe-seeking public servants are likely to prefer projects that provide a good base for kickbacks rather than those that benefit the public. Corrupt officials in public procurement tend to prefer bidders who are better connected and more skilled in arranging hidden payments instead of those who provide quality goods and services at reasonable prices. Corruption in hiring leads to the selection of applicants who are inclined toward corruption, rather than those who supply high-quality work at reasonable wages (ibid, p73).

4.1.7 **Government procurement, as center of corruption**

Given Procurement is directly related to every economic sector of a country the concern is not to be underestimated. Some web sites like **https://ustr.gov/sites/default/files/Ethiopia_0.pdf** reveal their findings: High proportion of Ethiopian import transactions are conducted through government procurements, reflecting the heavy involvement of the government in the overall economy. Tender announcements are usually made public. Bureaucratic procedures and delays in the decision-making process sometimes impede foreign participation in procurements. U.S. firms have complained about the abrupt cancellation of some procurements, a perception of favoritism toward Chinese suppliers, a frequent requirement that would-be suppliers appear in person to collect solicitation packages, and a general lack of transparency in the procurement system. Business associations complain that state-owned and ruling party-owned enterprises have enjoyed *de facto* advantages over private firms in government procurement. Several U.S. firms have complained of pressure to offer supplier financing or other low-cost financing in conjunction with tenders. Several significantly large contracts have been signed in recent years between government enterprises and Asian companies outside of the government procurement process.

4.2 **Part two: Historical Perspective: Korean Development Trajectories: What to emulate?**

Objective of the case study:

The case study has the following fundamental objectives

1) To identify some selected areas in which Ethiopia can take lessons from the spectacular development experiences of the Korean republic.
2) To assess the historical development of the Korean industrial policies and their implication to the development progress of Ethiopia.
3) To explore the factors which enable the Korean republic to embark on a level of social and economic transformation with in a relatively short period of time.
4) To suggest context specific and achievable recommendations from the growth experiences of Korea to the development policy planers of Ethiopia.

Economic and Social Transformations of Korea; Lessons for Ethiopia: A Brief Historical Perspective. In 1950, South Korea had a per capita income of $146, roughly in the ballpark with Kenya ($149) and Nigeria ($150) and just slightly behind Egypt ($203), (Ashford C. Chea, 2012), explains further, Taiwan ranked somewhat ahead of these countries with $224, but behind Brazil ($373), about one-half the level of Mexico ($562), and only the about 25 percent of Argentina ($907). Korea's growth was slower to start, but from 1961 to 1991 it rose by 8.4 percent per year. Both countries Korea and Taiwan roared past others that were once their economic peers. Despite some slowing in the 1990s, both countries were enjoying growth rates of over 6 percent in 1997.

Indeed, Korea had become sufficiently strong to acquire membership in the Organization for Economic Cooperation and Development (OECD)(Ibid).

For their growth and economic transformation, all two countries (Korea and Taiwan) have relied heavily on the export of manufactured goods. Indeed, export-oriented development has become so linked in the public mind with the hyper-growth of Korea and Taiwan that it has become new development orthodoxy." In the early 1990s, for example, U.N. trade system data shows that Korea and Taiwan accounted for 8 percent of the world's manufactured export; SSA, by way of contrast, accounted for only 0.4 percent. From another perspective, Taiwan, Korea, Hong Kong, and Singapore together account for more manufactured exports than do all SSA countries combined.

Both the Taiwanese and Korea n governments pursued import substitution policies from the end of World War II into the early 1960s. But import substitution gave way to export-led growth policies in the 1970s. For Korea, much like Japan, a devalued currency and severe barriers against the import of foreign consumer and manufactured goods were critical components of policy. When Korea shifted to export-led growth, the state channeled investment funds to specific firms in targeted industries using a vast array of export and investment subsidies. In addition, Korea followed a policy of national champions with the adoption of its new policy under the Heavy and Chemical Industry Plan of 1973 (ibid, 84)

(Mohammed Yimer, 2015) explains that,/ **My ref 50/** Ethiopia is trying its best to transform itself to standard in which its citizens in every stage will be beneficiary. It can get valuable insights for its journey towards sustainable development. Accordingly, Ethiopia needs to take lesson in the specific areas in which Korea has been used. Among others, investment in infrastructure, building human capability, technology transfer, Export orientation, tax policy and administration, technology financing, industrial policy, foreign direct investment and others are the directions in which Ethiopia can take ultimate advantage.

The researcher forwards three questions that are core elements that are of course basis for this research.

- What are some of the sectors in Korea in which Ethiopia can take lessons from it?
- What the historical development of Korean industrial policies look like and their implication to the development progress of Ethiopia?
- What are the factors which enable the Korean republic to embark on a spectacular social and economic transformation with in a relatively short period of time?
- What specific and achievable recommendations can be drawn from case study in point to Ethiopia?

(Stefan Neumann**, 2010)** states the fact that Korea inherited a coherent, autonomous state bureaucracy from Japan colonial era. Due to this structural foundation Korean policy stakeholders were able to overcome the distortion of ISI and strengthen export oriented growth. Therefore, the different motives for ISI between the two countries are not crucial. It is not bureaucracy that hampers development per se but it is the capacity of the state to deal with economic discrepancies, which affect state institutions (ibid).

The Above writer further explains that: In Korea the colonial legacy of Japan left large amounts of human capital capacities. The manufacturing sector was highly supported by the colonial power and Koreans received training as industrial workers at different layers of management hierarchy. Collective learning was transferred to the following generations. Koreans also imported its skills in construction work due to American assistance. Hence the writer mentioned as Brutron, argues that the quality of labor in South Korea ~~-~~was very different from that in other developing countries at the time, and, in particular, unskilled labor was much more effective than(…) in most of Latin America (ibid p51).

(Kenichi Ohno, 2003) my (**ref 12),** explained the following factors as often the ‗causes' of high performance in East Asia:

- High level of education
- Export promotion
- High savings and investment
- Income equality and shared growth
- Productive government-business relationship
- Selective intervention (targeted on individual industries)

These are undoubtedly nice features, but citing them does not solve the fundamental question of how to get out of the poverty trap. Almost all poor countries know that these conditions are necessary for growth. Their problem is not lacking this knowledge, but inability to actually realize them. We must address a problem at a higher level: what enabled East Asia to escape the vicious circle and prepare these conditions which were necessary to participate in the regional production network? This is a question in political economy of how to build a government that can lead development (ibid).

East Asian countries which succeeded (or are succeeding) in industrialization had a clear and common answer to the problem above. They adopted *authoritarian developmentalism* as a regime to break out from the vicious circle of poverty and instability and realize high growth. Authoritarian developmentalism is a strong state with economic capability. There are many strong states in the world but very few of them boast economic capability. More specifically, for an authoritarian state to be properly called developmental, the following conditions must be satisfied:

- A strong and economically literate leader

- A highly capable team to support the leader
- Top-down, coherent and flexible decision making
- Ideology that affirms material progress as the supreme national goal

Popular support for this regime backed by successful income growth (ibid p6/19).

(Thomas M. Domjahn, 2013), extensively explores into how Korea made a giant leap forward in economic development. The following are the writer's exploration:
South Korea, a country influenced by Confucian culture (a norm for hard work and discipline and ethics), are effectively closing the development gap to the world's most developed countries, in view of the above writer. The writer explains the development strategies of South Korea in the following manner:

4.2.1 **Development Dictatorship Right Direction?**

I. In contrast to many developing countries, South Korea first developed economically and only later transformed to a democracy, after having reached a respectable level of economic development. From 1961 to 1987 South Korea was under authoritarian rule of general Park Chung-Hee (until his assassination in 1979) and his successors. This period is sometimes called ―developmental dictatorship" as political leaders repressed the population and guided the economy in order to promote economic development.

Can Korea's Ethnic Homogeneity be considered a contributing factor for growth?

II. Korea is one of the countries with the highest ethnic homogeneity in the world. For this reason, compared to most developing countries, Korea has always had a high social cohesion.

III. This made social cooperation, for example between the state and South Korean *chaebols*, Chaebols in Korean business conglomerate), much easier. Social trust and social capital is higher than in most developing countries. Even if there were always protests against the government, especially by students during the reform process and catch-up development period in the 60s, 70s and 80s, on the whole South Koreans acted in concert. People identify with their nation and their companies understanding economic development as an individual as well as societal goal. This social cohesion is strengthened by the rivalry with North Korea and Confucian ethics which stress the importance of a harmonious and well-ordered society.

4.2.2 Education as a factor of progress

South Korea's population is one of the most highly educated in the world. Its results in the worldwide PISA and TIMS studies are well above the OECD average. Over seven percent of South Korea's GDP is invested in education. Private investment in education amounts to 2.8 percent of GDP which is the highest value of all OECD countries. What is special to South Korea are its informal institutions rooted in Confucian ethics which place a high value on education. Equate Confucius' writings with today's informal institutions. Informal Institutions are dynamic entities that change in the course of decades and centuries. But the high demand for education is one of the features of Confucianism which are still present in all societies shaped by Confucian ethics. In particular, there is a high demand for education in South Korea, Asia's most Confucian country (ibid).

It should also be added that South Korea's population was already well-educated compared to other developing countries even before the catch-up development started in the 1960s. For example the primary school enrolment rate in 1956 was an impressive 95 percent. In the preceding decades more and more money was invested not only in primary education but successively in secondary and tertiary education. On the one hand, human capital increase can be seen as an input to economic development, which made the shift in production structure to more sophisticated products possible. On the other hand, it is also an output because more and more private and public money is available to spend on education. This is why because human development is a determinant factor. Ethiopia lags behind at this point. For example:

Ethiopia Economic Fact Sheet , Embassy of the United States, Addis Ababa Ethiopia; http:/ethiopi. US embassey.gov. revealed the following facts: UNDP 2013 Human Development Report ranking: 173th out of 187 countries.

4.2.3 Hard Work ("Asian values")

Another similarity of the Protestant ethic and the Confucian ethic is the emphasis on hard work and discipline in the sense of Weber (1920). The catch-up development in the 60ies and 70ies was only possible because South Korea's population worked very hard for relatively low wages, six days a week. The commitment of South Koreans to their companies, especially if they were working for *chaebols*, was higher than in non-Confucian countries.

Only because of its informal institutions, valuing hard work, discipline and loyalty, sometimes summed up under the label ―Asian values"

4.2.4 **Compatibility of Confucian Informal Institutions with Western Formal Institutions**

Last but not least, South Korea had the comparative advantage that its informal institutions were more compatible with Western formal institutions like capitalism, rule of law, the separation of church and state, and democracy than those in other non-Western cultures. Confucianism is a relatively pragmatic, flexible, secular and adaptive thought system. Metaphysical ideas, such as god or life after death, are widely lacking. For example Confucius responds to a question by a student about serving ghosts and spirits: ―You haven‘t learned to serve the living, so how could you serve ghost? As a consequence, conservative religious forces did not block economic and political reforms during the catch-up development. In other parts of the world, the same reform pace would not have been possible.

Other Related basic facts on Korean economic success as per (Ashford C. Chea, 2012) research findings; Some background histories of (Korean) development trajectories when compared with SSA Causes for the Differences in Economic Performance have identified certain core differences in between the two distant countries. To mention some:

- The first is the neoclassical view. The neoclassical view attributes East Asia success to limited government intervention and an export-oriented trade strategy. Unlike nations in SSA that followed the protectionist path of import-substituting industrialization (ISI), the East Asian economies relied on export-oriented industrialization (EOI) since the mid-1960s to stoke global demand for their manufactured exports and to promote local industrial upgrading, as the writer quoted (Gereffi and Wyman, 1990; Haggard, 1990). Neoclassical economists and prominent international financial institutions such as the World Bank loudly touted EOI as a successful development paradigm that SSA should emulate. The explicit message directed at SSA and other countries pursuing ISI was that the economic performance of the outward-oriented economies has been broadly superior to that of the inward-oriented economies in almost all respect, most notably increased exports, employment, and economic growth (World Bank, 1987) as mentioned by the writer(ibid).

- The second is Korean institutional model is characterized by : (a) local ownership and control in the leading export and intermediate goods industries The writer identified (Gereffi and Wyman, 1990); (b) substantial backward and forward linkages within the domestic economy involving a wide variety of local business groups and subcontracting network as quoted writers,(Hamilton and Biggart, 1988; Orru and Baggart, 1991); (c) a high level of endogenous technological development, although few of these countries have made true innovative technological breakthroughs (Lall, 1994); and (d) industrialization by learning either by competitively benchmarking best practices or inventing them referred writers(Amsden, 1989; Sabel, 1994).

In addition to the above perspectives, research show there are other explanations for East Asia's superior economic performance relative to SSA. For Example:

(i) For example, (Ashford C. Chea, 2012) while Korea invested immensely in the social sectors (health and higher education, including science, engineering, and mathematics), SSA invested very little in the social sectors. Moreover, all societal stakeholders were involved in East Asia in setting development agenda and goals. There was no such partnership in SSA economic planning (ibid).

(ii) while East Asia had high national savings rate and high investment rate, the savings rate in SSA was negative and hence low investments rates as a percentage of GDP.

(iii) Furthermore, Korea depended less on official borrowing and managed international private loans judiciously through investment in profitable and productive projects; whereas SSA poorly managed its international private loans by spending on wasteful projects and depended on official borrowing.

(iv) Similarly, Korea and other East Asia followed their own policies but SSA implemented inappropriate policies designed and imposed by the IMF and World Bank to the detriment of her development. This means that East Asia economic destiny was in the hands of their leaders and they had total control over the direction of their countries' development; whereas SSA's development destiny was completely controlled by IMF and the World Bank. Unfortunately, research show that no country under the control of IMF and the World Bank had ever transformed from poverty to prosperity. Rather, countries that are under the control of the above institutions usually declined economically from relative poverty to absolute poverty. SSA is the best example.

(v) Another explanation for Korea, East Asia's high growth and development compared to SSA has to do with the fact that East Asia instituted capital controls (outflows) while SSA government officials and their cronies were exporting capital to be kept in international banks for themselves. Moreover, East Asians living overseas invested hugely in their homeland.

Besides the above facts, there are very many factors that Distinguish South Korea from Ethiopia. Even though not all the critical issues listed for discussion purpose, here under are not applicable Ethiopia as of 2015, the country selectively emulates Korean development paths:

- **First,** by establishing centralized economic policy-making organizations, the Economic

Planning Board (EPB) in Korea and Council for Economic Planning and Development (CEPD) in Taiwan, they launched a series of economic planning agencies and initiative for economic growth. Thus, state intervention in these East Asian economies has been more comprehensive and selective than that in any other capitalist country.

- **Second,** the developmental state managed investment by controlling the flow of money. There was a complete control of capital flows (both in and out of the country). The most important factor for state control over the economy was the nationalization of the banks (Shin, 1994; Wade, 1990). The state-owned banks were strategic instruments for the anti-consumption and pro-investment policy, controlling consumption levels and prohibiting the consumption of domestic and foreign luxury goods. The state initiated nationwide savings campaigns to expand capital investment in strategic industries. Consequently, there has been a trend of high savings rates and high investment ratios in East Asia as the writer quotes (Kim, 1998). The East Asian states have maintained very strict regimes of capital control until recently. Every economic transaction involving foreign exchange had to be made through the banks under government ownership and/or control, and there were heavy punishments for those who attempted major capital flight (they could be punished with the death sentence in Korea the writer referred (Chang, 2006).
- **Third**, the developmental states in East Asia like Korea initiated export -oriented industrialization as a strategy for economic growth. The main difference between the developmental state in East Asia and that in other developing is that the state in East Asia chose an outward-oriented industrialization strategy, a mercantilist strategy that stressed foreign trade. The mercantile state made export a compulsion rather than a choice for private companies, quoted, (Amsden, 1989). To promote exports, the dualist trade regime a free trade regime for export-related production and a protectionist trade regime for import-related production with a selective tariff system— was developed in East Asia.
- **Fourth**, the developmental states created economic agencies and big capitalists and capable technocrats to carry out economic planning in the private sector in Korea, Singapore and Japan, and they created small capitalists in Taiwan. They utilized state resources and power, financial subsidies, access to foreign capital, licenses to import scarce consumer goods, and so on, to help to make domestic capitalists internationally competitive. As in the case of the chaebol groups in Korea and zaibatsu in Japan, with the help of the state indigenous capitalists can become world-class capitalists in a short period.
- **Fifth,** and finally, to maintain a good business climate, the developmental states in East Asia pursued an oppressive labor policy either through exclusionary labor policies in pre-war Japan or post-war Korea or inclusionary labor policy in post-war Taiwan (Shin, 1994). Mobilizing the anti-communist ideology, the developmental states did not allow the basic rights of workers, such as freedom of association and collective actions (Shin, 1994). To prevent possible workers' revolts, the state tightly controlled the workplace through the use of an oppressive apparatus, such as legal, political, and physical measures that included state surveillance and violence (Kim, 1998).

The Korean development trajectories to be considered as a role model for Ethiopia where the manufacturing Industry is at its infant stage, requires a deep and thorough examination of the two countries social fabrics, economic and political environment the geographical factor that clearly distinguish the two countries and the similarities that the two countries can take a direct reference or what are the fields where Ethiopia can make Korea a benchmark? Are the questions to be answered?

Ethiopia needs to take lesson in the specific areas in which Korea has been used. Among others, investment in infrastructure, building human capability, technology transfer, Export orientation, tax policy and administration, technology financing, industrial policy, foreign direct investment and others are the directions in which Ethiopia can take ultimate advantage. As (Mohammed Yimer, 2015) forwarded three questions that are core to identify the elements that are critical for conclusion.

- What are some of the sectors in Korea in which Ethiopia can take lessons from it?
- What the historical development of Korean industrial policies look like and their implication to the development progress of Ethiopia?
- What are the factors which enable the Korean republic to embark on a spectacular social and economic transformation with in a relatively short period of time?

(Ashford C. Chea, 2012), assessing certain social indicators for East Asian countries especially Korea are worth mentioning or are deemed necessary to be mentioned and these are:

4.2.5 Human Resource Endowments

What is interesting to note is that around 1950, the human resource endowments of East Asian countries measured in terms of literacy were rather good, but nothing exceptional. It is not surprising that they did not have a good human resource bases as those of other developing countries, given their generally lower levels of development at that point, but notable is that, around 1950 Korea had a literacy ratio (22 percent in 1945) which was lower than those in five out of 16 SSA countries around the time for which data are available the rest including Ethiopia, no data was available, (Mauritius, 51.8 percent; Zimbabwe, 36.5 percent; Lesotho, 34.9 percent; Madagascar, 33.5 percent; South Africa, 27.5 percent; and only marginally higher than those in three more (Cape Verde, 20.8 percent; Botswana, 20.5 percent; Uganda, 19.5 percent).

The data for majority of the SSA countries became available only in the 1960s, by which time Korea had already raised its literacy ratio up to 70.6 percent, which is higher than the literacy level reached by any of the 37 SSA countries for which the data were available. All in all, one can say that East Asia countries did have better human resource endowments than those of the SSA countries but that the difference was not large until the 1950s. (ibid 41).

The purpose of the above paragraph is to show that at one point (1945), Korea was at equal level with in human development compared to most African countries South of the Sahara (SSA). This is to show that only commitment and willpower which is the only means that can liberate one country from the shackles of poverty. This is researcher's opinion.

4.2.6 Natural Resource Endowments: Physical and Social Infrastructures

It is frequently believed that the East Asia countries benefited from the superior physical and social infrastructures that they had inherited from their colonial masters, especially Japan. Is this true? Research shows the number of telephones in use per 1000 inhabitants as an indicator of the quality of a country's physical infrastructure. In 1950, Hong Kong, with, with 18.36 telephones per 1,000 people, was leading Asia in this respect but it was behind some SSA countries, such as South Africa (28.93) and the Gambia (26.02). Taiwan, with 5.37 telephones per 1,000 people as late as in 1956, was behind Zimbabwe (11.06) and Namibia (11.90), and Korea, with 0.84, was behind 17 out of the 30 SSA countries for which data are available. When we check the position of Ethiopia, by 2008, which is after 60 years the countries telephone distribution is 30 persons per 1000 people, almost equal to the Gambia (26.02) in 1950.(Source: **Source: (K. Mogus 2008)quotes World Bank, World Development Indicators database, September 2008).**

4.2.7..**Other Causes for the Differences in Economic Performance between East Asia and SSA.**

The **firs**t is as explained by (Ashford C. Chea, 2012), the neoclassical view. The neoclassical view attributes East Asia success to limited government intervention and an export-oriented trade strategy. Unlike nations in SSA that followed the protectionist path of import-substituting industrialization (ISI), the East Asian economies relied on export-oriented industrialization (EOI) since the mid-1960s to stoke global demand for their manufactured exports and to promote local industrial upgrading (Gereffi and Wyman, 1990; Haggard, 1990). Neoclassical economists and prominent international financial institutions such as the World

Bank loudly touted EOI as a successful development paradigm that SSA should emulate. The explicit message directed at SSA and other countries pursuing ISI was that the economic performance of the outward-oriented economies has been broadly superior to that of the inward-oriented economies in almost all respect, most notably increased exports, employment, and economic growth, as the writer quoted (World Bank, 1987).

The **second** is the revisionist view. The revisionist view is that East Asia governments actively led the markets in critical ways via industrial policy and other measures the writer refers (Wade, 1990). Interventionist states were central to East Asia success because of the presence of pervasive market failures, which governments remedied by altering incentives and deliberately getting the prices wrong to boost industries that otherwise would not have thrived quoted (Amsden, 1989). The lessons to be learned from East Asia are still in dispute, as referred Amsden (1994) observes: ―East Asia created competitiveness by subsidizing learning, whereas World Bank policy emphasizes methods that effectively cut real wages." However, the key features of East Asia‗s success may lie less in the area of economic policy than in the region‗s dynamic institutional arrangements.

The East Asian institutional model is characterized by : **(a)** local ownership and control in the leading export and intermediate goods industries the writer quoted (Gereffi and Wyman, 1990); **(b)** substantial backward and forward linkages within the domestic economy involving a wide variety of local business groups and subcontracting network quoted (Hamilton and Biggart, 1988; Orru and Baggart, 1991); **(c)** a high level of endogenous technological development, although few of these ecountries have made true innovative technological breakthroughs The write quotes (Lall, 1994); and **(d)** industrialization by learning either by competitively benchmarking best practices or inventing them as the writer mentioned The above mentioned writer quoted (Amsden, 1989; Sabel, 1994) (ibid 42).
The Korean development miracle when further examined is truly focuses on their hard work, their homogeneity, societal cohesion, strong leadership with clear vision to development.

Ethiopia can emulate the development trajectories of Korea, provided the following additional impeding factors to the growth of the Micro and Small Industries, are effectively dealt with by the leadership in the country. What are those impeding factors?

The other important factor hindering the growth, productivity, and competency regarding the

Micro and Small Enterprise sector (michael l. faye, et al. 2004) explain, the fact that the country is land locked and due to this fact the additional tax being levied on Ethiopia‘s import goods in Transit countries like Djibouti, highly inflate the input costs for industrial goods. In addition to the tax levied in transit countries, the additional transport costs to inland locations are also and added problem.

4.2.7.1 **Ethiopia's Dimensions of landlocked ness and its effect**

Why are economic and human development indicators for landlocked countries as (**Michael l. faye, et al. 2004)** explain as follows: Generally Land Locked ness is so much worse than those for maritime neighbors? Much can be attributed to the landlocked countries‘ dependence on other countries‘ transit routes for access to overseas markets. This dependence can take at least four forms: (1) dependence on transit infrastructure; (2) dependence on political relations with neighbors; (3) dependence on peace and stability within transit neighbors; and (4) dependence on administrative processes in transit (ibid).

4.2.7.2 **Dependence upon infrastructure of transit countries**

Landlocked countries are completely dependent on their transit neighbors‘ infrastructure to transport their goods to port. This infrastructure can be weak for many reasons, including lack of resources, bad governance, conflict and natural disasters. Regardless of the cause, weak infrastructure imposes direct costs on trade passing through a transit country and thus limits the ability of landlocked country products to compete in global markets. The relative impact of weak surrounding infrastructure is particularly severe for the least developed landlocked countries that mainly export primary commodities with low value to cost ratios rather than high value products or services. Weak transit infrastructure also limits the return to investment on landlocked countries‘ internal infrastructure, since market opportunities are constrained (ibid).

The above mentioned problems are some of the most critical issues the hinder the growth and development of the Micro and Small Enterprises sector.

It is clear that price is a determinant factor for cost of production, and land locked countries cost of production per unit product is higher than those countries with their own ports. Most East Asian Countries like Korea have no problems with ports because they are with ports of their own and most Small Industries are established around ports, and even Ethiopia's Neighboring countries like Kenya has a better advantage on prices of similar products to Ethiopia though same or homogenous products, then the preference goes to Kenyan products for price reason only.

May be it is due to this factor that recently, East African countries have formed a sort of a Sub common Market. It states:

'Djibouti, Ethiopia, South Sudan and Sudan to form new Trade Corridor' headline on (CAPITAL, No.864, and Sunday June 28, 2015).

It is named: Djibouti Corridor Authority (DAC) and a one stop Border Post development project to facilitate the transit of goods and passengers. "We can be competitive in the international market if the transport cost declines significantly", anticipates an official in Transport authority. The two land locked countries in the corridor, Ethiopia and South Sudan, will gain from increased access to the two ports in Sudan and Djibouti, experts commented **(CAPITAL, No 864, June 28, 2015).**

The researcher in this conclusion section intends to point out that the Micro and Small Industries protection policy though under free trade policy of the country, is based on competitiveness to survive and which is supported by Export promotion strategy, is good as a policy, but Ethiopia's chance of Industrialization strategy could only work if and only if the planners and the executives, give huge priority to the only factor endowment the nation has and that is Agriculture and Agriculture led industrialization, more than manufacturing area of Industrialization.

(Doing business in Ethiopia US country report 2014), reveals the following: State-owned enterprises and ruling party-owned entities dominate major sectors of the economy. There is state monopoly or state dominance in sectors such as telecommunications, power, banking, insurance, air transport, shipping, and sugar. Ruling party-affiliated "endowment" companies have a strong presence in the ground, transport, fertilizer, and textile sectors. Both state-owned enterprises and "endowment" companies dominate the cement sector (Ibid). So in effect, that means it creates an environment that violates Federal (Negarit Gazeta No. 6 16th August , 2010), a regulation passed to protect businesses from unfair completion.

Art. 18/―Anti-Competitive or Acts Restricting Market Competition" means acts limiting the competitive capacity of other business persons in commercial activities through acts of putting business persons engaged in selling similar goods and services at loss by reduction of prices or through acts of taking over of businesses and technologies of business persons engaged in similar businesses or through act of restricting the entry of other business persons in to market or through acts of restricting the suppliers of goods and services from determining their selling prices or through the tying of the sale of certain goods and services with the sale of other unlike goods and services by limiting the choices of consumers or users or are the acts prohibited under Articles 5, 11, 15 and 21 of this Proclamation and the like. Favoritism prevailing in Ethiopia is in violation of this regulation.

4.3 Other impeding factors within Ethiopia to MSE Performance

(R. Dayananad, 2012) quoted Habtamu (2007) in his explanation on different constraints, found that lack of strategic business planning, lack of low cost and accessible training facilities, lack of experience in owning / managerial a business and lack of well trained & experienced employees in the market impacting the performance of MSEs. In support of this, among the various factors listed as managerial factors, it is only lack of experience in managing the business, lack of strategic planning, overemphasis on short term profit and failure to take risks that challenges their sustainability. Among this significant factors, both lack of experience and lack of planning also evidenced in the previous findings. And the above result shows in one way or another, the problems are associated with lack of training and entrepreneurial skill. Entrepreneurial skills help the MSEs owner/manager to build a confidence in their business activity by taking a failure as an experience. May be through time they can learn to take risks. If MSEs owners get access to training, they will develop the skills and methods of business planning (ibid 11/14

Lack of good governance, corruption, unproductivity labor and management inefficiency in many government offices, Tax revenue underperformance, a weak judiciary, etc, and many more have been critically analyzed at 10th EPRDF conference at Mekele Town meeting. The EPRDF, the ruling party now clearly understood that the multidimensional problems facing the leadership and the country as a whole is at a critical level if appropriate steps are not taken sooner than later. The Growth and Development of a country depends on how far the government is in control sit particularly when it comes to the question of good governance, Nepotism of corruption prevalence in the country, that of course definitely undermine the growth of the MSE sector. Newspapers in Ethiopia after 10th EPRDF conference in Mekele, the following items for readers:

- Democracy and good governance in Ethiopia still plagued by among others, corruption, lack of transparency and accountability. It is observed that we need strong political leadership with a commitment to fight the deep rooted corruption with all its manifestations. (The Ethiopian Herald Sunday ed. September 6, 2015).

- The public‟s grievance that good governance and justice are non-existent, that rights are routinely violated, that corruption has become prevalent, and that government officials at all levels are laws unto themselves ought to be seriously taken. How can a society which stands up for its rights be created if legitimate complaints are labeled “rumors spread by dissatisfied rent seekers “and suppressed, if opinion contrary to the official line are stifled, If the state-owned media are unabashedly biased, if corrupt government officials misuse their office to amass ill-gotten gains, if justice a “pie in the sky”‟ and if demanding one‟s rights is deemed a crime? What kind of system is being built if tolerance gives way to extremism on both ends of the political spectrum**?, (The Reporter, English weekly newspaper, Vol.XIX.No 991, sept 05, 2015).**
- The EPRDF from its birth, its inherent characteristics as stated on the newspaper, was fighting for public cause. But now, it says, the Reporter Amharic version, now EPRDF officials rather than upholding their initial motto, as it is put on the newspaper, they are now behind their own personal interest, hunting for corrupt business deals, and after luxury life. Good governance is in its eclipse, disappearing, concerning Judiciary, since new graduates, without any prior experience are appointed judges and attorney not based on meritocracy. For this reason, many cases are distorted and many people with genuine cases are becoming victims of blind justice. No accountability, not only Religious fanatics, but Ethnicity is also on the rise. These and many other related grievances were raised in the Mekele EPRDF meeting. **(**The Reporter Amharic language ed. Vol.20, No. 1602, Pagume1, 2007)
- A serious corrupt practice on land Administration throughout the country is becoming heavily discouraging and becoming a hopeless issue, the reporter declares. The empirical findings also, the respondents have serious grievance on getting plot of land for constructing Small Industries, particularly in Addis Ababa,(survey 2015).

*The*re are various issues, problems, raised under the above reference, major issues like Lack of Transparency and public participation, like institutional weakness, Resource challenges and the paper puts its own recommendation as a remedy. It is hard to imagine growth for MSE sector unless these mentioned negative aspects are effectively under control.

The different newspapers in Addis Ababa provided us with various interesting issues raised in the Mekele, meeting and at the closing deliberation, passed various encouraging resolutions especially regarding corruption, and bad governance, some of which are cited as a example. Of course those mentioned problems are currently creating big obstacles to the growth and development aspects in every economic sector including the MSE sector.

(WWW.transparency.org and WWW.omi.no (2013) explains multiple problems regarding corruption in city administrations which of course directly affected MSE's requests for land for Enterprise's use. Under the title _*Forms of Corruption in Land Administration in Ethiopia':*

> *Corruption is perceived to be a serious problem in Ethiopia. It is ranked 111th out of 177 countries in Transparency International's 2013 corruption perception Index, with a score of 33out an average 100(Transparency International 2013a). On the 2013 Ibrahim Index of African Governance. Ethiopia Scores 47.9%, lower than the 51.6%% (Mo Ibrahim Foundation, 2013).*

Transparency International_s *Corruption Perception Index* and the *Ibrahim Index* (**2011-2015** *April 2011) point* to graft as a growing challenge. In 2009, the *Ibrahim index* ranked Ethiopia 30th out of 51 African countries, compared to 24 in 2008. (P7/41)

To summarize, all the above mentioned constraints, shortfalls, are impediments to the Micro and Small Industry sector. When corruption and bad governance invade the rights of individual citizens', in business activities, in other related social life, then it necessarily invites the failure of a system.

Through the above mechanism, SSA, and particularly Ethiopia, has registered the following

Capital outflow:

From 1990 to 1999

Table_(23):_

	1991	1992	1993	1994	1995	1996	1997	1998	1999	total
Total	17,778.5	5,400.1	3,545.1	2,475.1	10,529.7	7,273.8	4,491.9	732.7	4,437.5	5,121.0
North Africa	3,505.1	1,888.9	0.0	0.0	2,496.8	2,353.2	538.2	0.0	1,415.3	2,247.7
SSA	14,273.4	3,511.2	3,545.1	2,475.1	8,032.9	4,920.6	3,953.7	732.7	3,022.2	2,873.3
Horn	1,565.4	609.1	22.4	203.7	858.9	283.6	25.9	150.6	219.0	0.0
Lakes	919.9	256.3	0.8	0.0	245.5	89.2	0.0	0.0	51.2	0.6

Southern	1,404.2	839.4	552.0	391.5	2,486.5	944.8	2,764.4	273.4	1,842.1	642.4
West	10,383.8	1,806.4	2,970.0	1,880.0	4,442.0	3,602.9	1,163.4	308.7	909.9	2,230.4
CFA	3,290.8	269.5	464.4	14.1	2,125.0	3,201.9	853.3	101.2	590.1	167.8
Fuel	11,391.0	3,352.7	2,774.4	2,156.4	3,278.9	993.2	2,397.4	101.2	400.6	2,162.0
Non fuel	769.2	147.9	289.7	175.5	1,783.7	377.0	149.8	207.5	1,132.0	183.3

Source: Global Financial Integrity GFI, 2009)

Table(24):

Ethiopia	**530.6**	**554.4**	**6.1**	**15.8**	**36.0**	**79.1**	**0.0**	**150.6**	**116.2**	**0.00**

Source: Global Financial Integrity, 2009.

Ethiopia total 1991-1991) USD 1813.8 (in USD One billion eight hundred thirteen thousand and eight hundred).

Table(25) From 2000-2008 Total Illicit Financial flows from Africa

	2001	2002	2003	2004	2005	2006	2007	2008
Total	8,846.2	14,669.6	23,219.4	32,155.6	29,518.2	21,795.3	38,258.8	53,466.4
North Africa	0.0	917.5	4,639.9	9,087.1	6,481.0	0.0	12,270.2	13,812.0
SSA	8,846.2	13,752.2	18,579.5	23,068.5	23,037.1	21,795.3	25,988.6	39,654.4
Horn	31.8	17.4	1,456.0	1,859.6	1,078.8	36.7	106.3	836.0
Lakes	0.0	0.0	1,368.0	1,124.2	1,257.2	0.0	0.0	0.0
Southern	1,312.2	10,770.4	7,309.4	4,561.4	3,932.7	4,862.3	3,775.3	9,164.8
West	7,502.2	2,964.3	8,446.2	15,523.3	16,768.3	16,896.3	22,107.0	29,653.6
CFA	1,166.4	115.0	2,691.0	5,115.3	4,241.5	1,733.5	3,164.4	915.0
Fuel	7,654.5	3,168.4	8,919.5	15,649.9	18,174.9	21,153.7	23,276.1	36,355.8
Non fuel	0.0	0.0	344.6	351.3	1,051.4	0.0	0.0	865.6

Sourc : Global Financial Integrity, 2009.

Table (26)

Ethiopia	**0.0**	**0.0**	**1,141.2**	**686.6**	**0.0**	**0.0**	**277.8**	**0.0**	**0.0**	**0.0**

Source Global Financial Integrity (GFI) 2009.

- 2001-2008 Total USD 2,105.6 (USD Two Billion one hundred five thousand and six hundred only). And from 1991 to 2008 the amount is USD 3,919.4 (Three billion point nine billion).
- The GFI might have produced for 2009-2015 illicit financial flows, but the printout could not be available for this report, the researcher.
- This is one of the differences what Korea controlled in its economic drive to development and Ethiopia Not. As everybody knows this is called draining development, and is one of the main impediments to development in every aspects be it MSE or any angle of the economic sector and this outflow is at the cost of the nation‘s development program.

It is crucially important to note that unless illicit financial outflow from Ethiopia is controlled, it highly unlikely to think about development in any sector.

4.3 **Conclusion**

The distinctive features that differentiated The Republic of Korea‘s economic leap forward and Africa South of the Sahara, particular Ethiopia:

In the formulation of industrialization strategy, the largest difference between Ethiopia and high-performing East Asia—especially Southeast Asian like Korea- economies—is the existence in the latter of large inflows of manufacturing foreign direct investment (FDI) which generates strong demand for quality, skills, logistics, institutions, infrastructure services, and the like in the national economy. This demand for local capabilities from foreign manufacturers determines the kind of policy needed for further industrialization. But such demand by FDI firms is largely absent in Ethiopia. Export orientation does expose local industries to global competition, but export alone does not produce such strong and broad pressure for local excellence.

- East Asia invested immensely in the social sectors (health and higher education, including science, engineering, and mathematics), SSA invested very little in the social sectors. Moreover, all societal stakeholders were involved in East Asia in setting development agenda and goals. There was no such partnership in SSA economic planning.

- Korea, East Asia had high national savings rate and high investment rate, the savings rate in SSA was negative and hence low investments rates as a percentage of GDP. Furthermore, East Asia depended less on official borrowing and managed international private loans judiciously through investment in profitable and productive projects; whereas SSA, poorly managed its international private loans by spending on wasteful projects and depended on official borrowing. Similarly, East Asia followed its own policies but SSA implemented inappropriate policies designed and imposed by the IMF and World Bank to the detriment of her development.

- This means that East Asia economic destiny was in the hands of their leaders and they had total control over the direction of their countries' development; whereas SSA's development destiny was completely controlled by IMF and the World Bank. Unfortunately, explains the writer, research show that no country under the control of IMF and the World Bank had ever transformed from poverty to prosperity. Rather, countries that are under the control of the above institutions usually declined economically from relative poverty to absolute poverty. SSA is the best example.
- Another explanation for East Asia's high growth and development compared to SSA has to do with the fact that East Asia instituted capital controls (outflows) while SSA government officials and their cronies were exporting capital to be kept in international banks for themselves. Moreover, East Asians living overseas invested hugely in their homeland. This was because the environment was

conducive for investments. This was not the case for SSA because the investment environment was poor due to bad government policies. Also, East Asia actively learned from developed nations and adapted international best practices to local situations.

- For SSA there were no deliberate policies in place to seek, acquired, adopt, and adapt international best practices for development. Furthermore, East Asia acquired and developed institutions to support their development. SSA had no such institutions or policies to acquire them. Finally, and more importantly, East Asian political leaders were single-mindedly focused on economic development and national interests above anything else, while SSA politicians were motivated by self-interest at the expense of their citizens and countries.(ibid 42).

Chapter five: Recommendations

5. Background

Given the fact that the country is peaceful and the prospect of growth and development lies on this environment, the multiple challenges facing the country particularly in its drive for industrialization which is based on import substitution and export promotion strategy needs a critical rethinking, sequencing of development projects, Participation of intellectuals including all sectors of the society, is number one issue to be highlighted I.E. manufacturing industrialization should start from Micro and Small Enterprises and that is what is called Sequencing development projects.

Benchmarking Korean development trajectories can be the best choice in itself because regardless of the geographical, and socio economic factors that may make things difficult to emulate, the tiger's commitment to growth and development, the quality and strength in leadership, Strength particularly controlling all the impeding factors to the development of the trade and industrial sector, like raising productivity, competitiveness, controlling corruption top down etc., is the main distinguishing factor that differentiates The republic of Korea from Ethiopia.

There are good a reason to cast doubt on many SSA that includes Ethiopian governments' ability to manage industrial policies effectively explains, (Tilman Altenburg Bonn 2011), financial and administrative resources are scarce, and the democratic institutions that hold governments accountable are often rather weak. Many scholars therefore hold that countries at early levels of institutional development should avoid selective policies and focus instead on reforming the overall investment climate9ibid).

As (Mohammed Yimer, 2015) forwarded three questions that are core to identify the elements that are critical for growth and development of Micro and Small Enterprises sector in particular and The manufacturing industrial sector in general that Ethiopia can emulated from the Republic of Korea. The following were questions (M.Yimer, 2015) raised

- What are some of the sectors in Korea in which Ethiopia can take lessons from it?
- What the historical development of Korean industrial policies look like and their implication to the development progress of Ethiopia?
- What are the factors which enable the Korean republic to embark on a spectacular social and economic transformation with in a relatively short period of time?

The following distinct features that Korea possessed and that are of high importance for countries like Ethiopia that are with underdeveloped manufacturing industries and Industries at their infant stage, and also SSA are called late industrializers. Ethiopia and most SSA countries, as research findings show, were in the same level of industrialization in late 1950's and early 1960's but due to the distinctive features of Korea as a country with unique political, geographical, societal and cultural manifestations, made a difference and accelerated in economic development.

The following initiatives taken by Korea is not impossible for Ethiopia if the country in its development drive takes the best and exemplary steps that Korea made its critical choice for development. The following are selected recommendations.

It is critically important note that whatever economic, social, political, cultural or even geographical factors that could possibly made the Korean republic in a better position to harvest the benefits of conducive environment of the above mentioned conditions, Ethiopia or other African countries South of the Sahara SSA, through hard work, discipline and commitment can achieve what the tigers have already achieved in the 1960‘s and 1970‘s.

Hence, all the detail items that are shown under the recommendation section of this research paper are those critical socio economic, political, cultural etc., shortfalls that SSA currently are constrained with, not because SSA are in constraints with factor endowments, but mostly not identifying what their factor endowments are. There lies the major and critical point where the republic of Korea clearly identified as early as 1950‘s what factor endowments their country is rich with and they were especially gifted and developed skills to exploit their resource.

5.1 What to Emulate from Korean economic performance

- The republic of Korea's Industrial development (Micro and Small or Medium or Large) is based on substantial backward and forward linkages within the domestic economy involving a wide variety of local business groups and subcontracting network, Ethiopia‘s domestic Industries lack this:

  > *(Ethiopian Economic Association 2009), on the question of linkage explained as follows: "The other factor that determines the pace of industrialization is sub-sectorial allocation of investment within manufacturing. Balanced linkage between industries within manufacturing is an essential element for industrialization. This comes about more through conscious and deliberate investment coordination, rather than through solo market arbitration. In the case of Ethiopia such industrialization strategy at national level is not yet known. To some extent, incentives are provided more to industries with strong linkages to agriculture, and which are, at the same time, export-oriented EEA quoted (FDRE, August 2002). In the Ethiopian context, this means a continuation of the past investment allocation that has been operational for over half a century (EEA, 2009 121).*

- Korea, as East Asian country had high national savings rate and high investment rate, the savings rate in SSA was negative and hence low investments rates as a percentage of GDP. Though in Ethiopia the culture of saving is improving, it should be given a high priority, because without saving there is no investment and without investment there is no development.

- East Asia depended less on official borrowing and managed international private loans judiciously through investment in profitable and productive projects only; whereas SSA, poorly managed its international private loans by spending on wasteful projects and depended on official borrowing. Of course this is one of the distinguishing factors South Korea from SSA/ Ethiopia.

- Similarly, East Asia followed its own policies did not take directives from IMF and WB, but SSA implemented inappropriate policies designed and imposed by the IMF and World Bank to the detriment of their development. This means that East Asia economic destiny was in the hands of their leaders and they had total control over the direction of their countries' development; whereas SSA's development destiny was completely controlled by IMF and the World Bank.

  "Unfortunately, explains (Ashford C. Chea, 2012). No country under the control of IMF and the World Bank had ever transformed from poverty to prosperity. Rather, countries that are under the control of the above institutions usually declined economically from relative poverty to absolute poverty. SSA is the best example".

- In the formulation of industrialization strategy, the largest difference between Ethiopia and high-performing East Asia—especially Southeast Asian economies—is the existence in the latter of large inflows of manufacturing foreign direct investment (FDI) which generates strong demand for quality, skills, logistics, institutions, infrastructure services, and the like in the national economy. This demand for local capabilities from foreign manufacturers determines the kind of policy needed for further industrialization. But such demand by FDI firms is largely absent in Ethiopia. Export orientation does expose local industries to global competition, but export alone does not produce such strong and broad pressure for local excellence.

- Another explanation for Korean high growth and development compared to SSA has to do with the fact that Korea instituted capital controls (outflows) while SSA government officials and their cronies were exporting capital to be kept in international banks for themselves. Moreover, East Asians living overseas invested hugely in their homeland. This was because the environment was conducive for investments. Korea, East Asia actively learned from developed nations and adapted international best practices to local situations. There are illicit financial out flow from Africa one can get very many online information. But for space reason the researcher intended not to print in this research paper reports on Africa, but took only the summaries. Summary report of the (GFI):

- According to World Bank‗s *Investment Climate Report*, the lack of competition, poor access to finance and land, low productivity and resource allocation inefficiencies pose a major hindrance to Ethiopia's competitiveness. Even though GoE recognizes the importance of private sector consultations in policy making, in reality the process is fraught with difficulties.

- High growth and development compared to SSA has to do with the fact that East Asia instituted capital controls (outflows) while SSA government officials and their cronies were exporting capital to be kept in international banks for themselves. Moreover, East Asians living overseas invested hugely in their homeland. This is really the problem of the whole African countries, controlling capital outflow for Africa and Ethiopia in particular is and must be a priority otherwise the 2025 growth target is Unachievable. To cite some examples of trade miss- invoicing, the case of some African countries:

Draining African Economy through Trade miss-invoicing (Two African countries case)

a) In November 2005, a set of golf clubs is imported into Nigeria for $4,976, while the U.S./World median price for the same set of clubs is only $82. During the same month, a gasoline generator is imported into Ghana from the U.S. at a price of $60,000 that could be purchased at the U.S./World median price of $63.03. During June of 2005, an electric hair dryer is imported into Nigeria at a price of $3,800 when the U.S./World median price is estimated to be $25.These transactions may be due to intentional miss-invoicing of transactions, which commonly occurs in the African continent.

b) In February of 2002, U.S. customs data shows that Ghana exported diamonds to the U.S. through New York via air cargo a total of 37 times with a total undervalued amount of $311 million. When it comes to this country, the highest dollar amount ($328 million) of capital outflow through low priced exports was recorded in the year 2000. The amount of capital outflows from Ghana to the U.S. through trade miss-invoicing increased dramatically between 2003 and 2005. Korea has dealt with this transaction that drains development as explained Source:Maria E. de Boyrie et. Al, (2006).

Financial outflow from Ethiopia is in of form trade miss invoicing, and to emulated Korea, one of our country‘s greatest homework is to stop this.

Maria E. de Boyrie et. Al, (2006), *explained the following facts: Trade miss-invoicing can be used as a tool to move capital in or out of a country in order to evade taxes and custom duties, to avoid quotas, for smuggling, to launder money, or as a means of capital flight. For whatever reason miss-invoicing occurs, the economic development of the given country can be severely hindered. In the case of the African continent, the amount of annual capital outflows to the U.S. between 2000 and 2005 increased by more than 60%. This capital flow occurred mostly through low priced exports which can facilitate tax evasion, launder money, or just move money out of the country (capital flight). High priced imports are also used for capital flows and can be used to mask illegal commissions. Data was examined for deviations from average import and export prices as an indicator of capital flows. Four of the top thirty African countries to move capital to the U.S. are classified as Northern African countries. These four* *countries (Egypt, Algeria, Morocco and Tunisia) alone moved approximately $6,734 million through trade miss-invoicing while the remaining 26 Sub–Saharan countries combined moved a total of $13,408 million. The country moving the most capital to the U.S. through trade miss-invoicing was South Africa, a Sub-Saharan country (ibid).*

This is what The Republic of Korea controlled and made a rapid development (ibid).

. Trade miss-invoicing as the above writer (Ashford C. Chea, 2012), further explains, can be used as a tool to move capital in or out of a country in order to evade taxes and custom duties, to avoid quotas, for smuggling, to launder money, or as a means of capital flight. For whatever reason miss-invoicing occurs, the economic development of the given country can be severely hindered. In the case of the African continent, the amount of annual capital outflows to the U.S. between 2000 and 2005 increased by more than 60%. This capital flow occurred mostly through low priced exports which can facilitate tax evasion, launder money, or just move money out of the country (capital flight).

High priced imports are also used for capital flows and can be used to mask illegal commissions. Data was examined for deviations from average import and export prices as an indicator of capital flows. Four of the top thirty African countries to move capital to the U.S. are classified as Northern African countries. These four countries (Egypt, Algeria, Morocco and Tunisia) alone moved approximately $6,734 million through trade miss-invoicing while the remaining 26 Sub–Saharan countries combined moved a total of $13,408 million. The country moving the most capital to the U.S. through trade miss-invoicing was South Africa, a Sub-Saharan country (ibid). The recommendation for Ethiopia is obvious.

- All societal stakeholders were involved in East Asia in setting development agenda and goals, there was no such partnership in SSA economic planning. Still, while East Asia had high national savings rate and high investment rate, the savings rate in SSA, Ethiopia, was negative and hence low investments rates as a percentage of GDP.

  Low saving (EEA VII, 2007/2008), has been a dominant feature of the Ethiopian economy. The share of gross domestic savings from GDP was, on average, 7.5 percent for the last thirteen years, which has even declined to 4.9 percent during the last five years(ibid p36). Hence despite the economic factor, Ethiopia has to promote it saving environment.

- One way or the other, certain form of incentive is required to encourage people for savings, because currently it is at low level, for example, Eric Kehinde Ogunleye, and Desire Adebimpe Fashina 2010), revealed the following facts:

Table_(27):

Average Domestic Investment and Savings in Selected SSA Countries, 1960-2008 (% GDP)

	1960-69	1970-79	1980-89	1990-99	2000-08	1960-69	1970-79	1980-89	1990-99	2000-08
	Domestic savings					**Investment**				
SSA	19.31	28.77	22.17	14.49	24.72	16.79	20.12	19.30	17.85	17.81
East Asia & Pacific	19.77	28.63	33.3	36.27	36.10	N/A	28.59	32.89	37.82	40.97

Source: Africa Development Indicators 2010 Database my ref 34

This shows that Ethiopia has to show a great effort in increasing its domestic savings and investment.

(MoFED 2010) in its draft report for 2010/11-2014/2015 period revealed that Low level of domestic savings to support the huge demand of the country‘s investment for Accelerating growth and development in the process of eradicating poverty (ibid).

- East Asia economic destiny was in the hands of their leaders and they had total control over the direction of their countries' development, (Ashford C. Cheo, 2012) whereas SSA's development destiny was completely controlled by IMF and the World Bank. Unfortunately, research show that no country in the world if under the control of the IMF and the WB have ever transformed from poverty to prosperity Rather, countries that are under the control of the above institutions usually declined economically from relative poverty to absolute poverty. This is highly preferable and needs rethinking (ibid).

- East Asia acquired and developed institutions to support their development, Whereas SSA had no such institutions or policies to acquire them. Finally, and more importantly, East Asian political leaders were single-mindedly focused on economic development and national interests above anything else, while SSA politicians were motivated by self-interest at the expense of their citizens and countries. This can also be emulated by Ethiopia.

- The following responses were obtained from respondents upon 2015 survey, and when we compare Korea at 1960 and Ethiopia at 2015, it is to be noted that the points like: a) Shortage or un- availability of premises, b) shortage of credit facilities for Enterprises expansion, c) Shortage of capital, d) Shortage of raw material, e) unfair competition, f) market linkages problems, Shortage of training facilities) issues like petty corruptions that are of course taken care of by the East Asian tiger at an initial stage of development but these problems are still unsolved issues in Ethiopia‘s MSE sector as per the respondents. These are critical for the growth of MSE sector and hence the researcher recommends priority action for GTP II.

- Ethiopia's financial sector remains small, fragmented and lacks depth (Solomon Wale 2013), the financial sector is not able to offer adequate and competitive services on the scale required. This is a major impediment to the expansion of productive activities, especially for MSEs, and development of export capacity. The private sector considers inadequate access to risk capital and credit as major impediments to doing business and this is the one of the areas where the country should work hard in order to catch up the Far East.

- Regarding Industrial linkage: For countries like Ethiopia, the linkage effects MSEs would have within the industrial sector need to be given adequate considerations. Small-scale industries create markets for the outputs of large-scale industries. At the same time, they can provide inputs and components to large-scale industries through sub-contracting. This type of relationship will be important particularly in developing engineering industries. Consequently, a policy of ancillerzation or sub-contracting is necessary to exploit the benefits of linkages within the manufacturing sector in order to facilitate the creation of a sound industrial base, hence the country should do much more in this aspect.

  The fact that the growth in the industrial sector is attributed to construction and infrastructure (EEA Vol. VII 2007/08), show that there is a weak linkage between the agricultural and the industrial sectors (ibid p33). The Recommendation is creating the linkage between industry and Agriculture which is very weak as mentioned above.

- The most important argument in favor of small-scale industries is the creation of entrepreneurship, which is lacking in a backward country like Ethiopia. Whatever policy issues are considered, this fact must not be overlooked. The dynamism of small-scale industries lies in their ability to create a private entrepreneurial class capable of going into large-scale operation. This is particularly important for Ethiopia which has a good potential for the creation of entrepreneurship, as witnessed by the existence of such elements even within a sector characterized by low level of development. Ethiopia's policy formulation should see this critical area.

For example (EEA, VII 2007/2008) the growth in the industrial sector has been steady at around 10%. Its share in the economy has, however, slightly declined by 1.6 percentage point in 2007/08 compared to its 2003/04 level. The share of Micro and Small scale industries in only 4.7% (ibid p32)

- The Koreans are said to have inherent character of a sort of special discipline for work Hard Work (―Asian values"), though this point is arguable in view of the researcher. A sort of Confucian ethic is the emphasis on hard work and discipline in the sense this writer (Ashford C. Cheo, 2012) quotes Weber (1920). The catch-up development in the 60ies and 70ies was only possible because South Korea's population worked very hard for relatively low wages, six days a week. The commitment of South Koreans to their companies, especially if they were working for *chaebols*, was higher than in non-Confucian countries. Only because of its informal institutions, valuing hard work, discipline and loyalty, sometimes summed up under the label ―Asian values". In researcher opinion, Ethiopia will not lack this if there is a good leadership. Hence the researcher's recommendation here is a good leadership who is able to lead, teach disciplines, hard work and loyalty to his job only.

- **T**he East Asian economies relied on export-oriented industrialization (EOI) since the mid-1960s to stoke global demand for their **manufactured** exports and to promote local industrial upgrading, neoclassical economists and prominent international financial institutions such as the World Bank loudly touted EOI as a successful development paradigm that SSA should emulate. The explicit message directed at SSA and other countries pursuing ISI was that the economic performance of the outward-oriented economies has been broadly superior to that of the inward-oriented economies in almost all respect, most notably increased exports, employment, and economic growth. Export oriented Industrialization is for Korea as its factor endowment, but Ethiopia can be successful by exploiting its comparative advantage and use its factor endowment and that is Agricultural Led Industrialization not export oriented manufacturing industrialization as Korea successfully promoted, and only with this strategy can the country be successful in developing the Small currently uncompetitive manufacturing Industries. The researcher recommendation is on condition that the above strategy is seriously considered by the planners.

- State intervention in East Asia is more similar to that in Western Europe, since the state also played a role as entrepreneur as well as planner, such that state enterprises played important strategic roles in promoting exports. The state also selected several industries as strategic sectors and gave them protection from excessive competition among domestic as well as foreign enterprises. Ethiopia should have selected industries from Micro to large Industries that the government consider as strategic sectors and give them protection as mentioned above. In this research paper the researcher as already mentioned about the unfair competition prevailing in Ethiopia from some Endowment and party affiliated enterprises have impeded the growth of MSE sector as the respondents have already voiced their grievances on the questionnaire. On the other hand, in Ethiopia:
- Ethiopia should press hard with the proposed formation Four Countries(Djibouti, Ethiopia, Sudan and South Sudan) as it is called one stop Border Post development Project, as it was made public and read in ***CAPITAL, No.864, and Sunday June 28, 2015.*** *And named "named*: Djibouti Corridor Authority **(DAC).** This agreement is highly recommended because it can benefit Ethiopia more than the four mentioned countries above. It is meant especially to reduce trade costs that land locked countries like Ethiopia is purely in disadvantage position, and because trade and logistics costs are one of the major components that impede the competitiveness of Micro and Small Industries in international markets.

In order to enhance the growth of the MSE sector, Ethiopia should give intensive research work a priority to develop trade with neighboring countries than East Asian or European countries. The structure of production of an economy determines not only the composition but also the direction of trade (K. Mogus, 2008) the current pattern of trade is dominated by transactions among advanced countries, and to some extent, between advanced and newly industrializing economies. Trade relations among poor countries is least developed. Despite the obvious advantages of geographical proximity, and historical and cultural ties, trade between bordering least developed countries is quite rudimentary. In Africa, for instance, in spite of the proliferation of regional trade and monetary blocs/cooperation, formal trade among neighboring countries is largely insignificant. This also holds for Ethiopia and its neighbors. The purpose of this study is to show trade relations between Ethiopia and its neighboring countries, namely Sudan and the EAC (Kenya, Uganda and Tanzania) (ibid).

In the formulation of industrialization strategy,(cross cutting issues, http://www.grips.ac.jp/forume), explained the largest difference between Ethiopia and high-performing East Asia—especially Southeast Asian economies—is the existence in the latter of large inflows of manufacturing foreign direct investment (FDI) which generates strong demand for quality, skills, logistics, institutions, infrastructure services, and the like in the national economy. This demand for local capabilities from foreign manufacturers determines the kind of policy needed for further industrialization. But such demand by FDI firms is largely absent in Ethiopia. Export orientation does expose local industries to global competition, but export alone does not produce such strong and broad pressure for local excellence(ibid).

Hence Ethiopia needs a great deal of works in this regard since all items mentioned above are directly or indirectly have their chain effect on the growth of the MSE sector.

References

(Ashford C. Chea, 2012), **the East Asian Development Experience: "Policy Lessons, Implications, and Recommendations for Sub-Saharan,"** Africa **(SSA) Global Competitiveness:** International journal of Academic Research in Business and social science, Vol.2, July 2012 No 7. Email: achea@ix.netcom.com

(Kenichi Ohno, and Izumi Ohno, 2009) Dynamic Capacity Development: ―What Africa Can Learn from Industrial Policy Formulation in East Asia" National Graduate Institute for Policy Studies (GRIPS), Tokyo.
(Macmillan, ...*www.networkideas.org/featart/aug2010*

(MOFED, 2010,2012, 2013) Growth and Transformation Plan (GTP)*www.vliruos.be/media/1829405/growth_and_transformation_plan.pdf*

(R. Dayananad, 2012) sustainability of micro and small enterprises: imperatives, myths and realities.

(Robert McIntyre (2001 ―**the role of small and medium enterprises in transition: growth and entrepreneurship"** A research and training center of the United Nations University, Helsinki, Finland. 1115Kb

(WWW.transparency.org and WWW.omi.no 2013) explains multiple problems regarding corruption in city administrations which of course directly affected MSE"s requests for land for Enterprise"s use. Under the title *„Forms of Corruption in Land Administration in Ethiopia':*

. Negarit Gazeta No. 6 16th August, 2010) Trade Practice and Consumers' Protection Proclamation Proclamation No. 685/2010

―The Challenges Facing Landlocked Developing Countries:" Journal of Human Development, Journal of Human Development Vol. 5, No 1, March 2004, Carfax Publishing Colombia, USA. **my ref 242**

Altenburg, T. (2010) ―Industrial policy in Ethiopia", Discussion Paper / Deutsches Institut für Entwicklungspolitik ISBN 978-3-88985-477-3 2010 Bonn, Germany. *vi.unctad.org/.../Industrial%20policy%20in%20Ethiopia%202010.pdf*

Aredo , D. et al (2011) Trade Liberalization and poverty in Ethiopia: ―Macro - Micro - Analysis in Ethio Retrospect and Prospects. Addis Ababa, 2011
https://www.diw.de/documents/.../diw.../v_2011_kebede_trade_eea.pdf

Aria E. de Boyrie et. Al, (2006), Capital Movement through Trade Misinvoicing: The Case of Africa, e-mail: deboyrie@nmsu.edu, e-mail: jnelson@nmsu.edu.

Arne Bigsten and Måns Söderbom, (2010) , ―**Industrial Strategies for Economic Recovery and Long-term Growth in Africa"** arne.bigsten@economics.gu.se, mans.soderbom@economics.gu.se, Bonn Germany.

Berhan, E. (2005) ‗Role of Micro and Small Enterprises in Local Economic Development: The Case of Hawassa', in T.G. Egziabher et al. (eds), Local Economic Development in

Africa: Enterprises, Communities and Local Government (pp. 96-121).

Broadening the Policy Scope: Cross-cutting Issues: JIca& gdf report-ethiopiaa phase 1/intellectual partnership for Africa 8 final report http://www.grips.ac.jp/foru 3e/pdfe12/JICA&GDFReport_Ethiopia_phase1/Intellectual_Partnership_for_Africa/8Final_Rept_ch6.pd

CAPITAL, No 864, June 28, 2015)

Ciuriak and Claudius, P. (2010), Macroeconomic Policy Mix and Private Sector Under-development ―Etiopia's Trade and Investment Policy priority for the New Government" (2010). (claudiuspreville. com/.../ Ciuriak and_Preville 2010)

Davnnandan, R. (2012). ―Sustainability of Micro and Small Enterprises Imperatives, Myths and Realities", Internal and External Factors. International Journal of Entrepreneurship & business environment perspective @ Pezzottaite Journal 9129 Vol 1, No. 2, October-December'2012.

Doing business in Ethiopia US country report 2014

EEA, (2008) Ethiopian economy volume VII 2007/08 Development, prospects and challenges of the energy sector in Ethiopia.

Endalkachew Mulugeta, (2008) Underlying Causes of Micro and Small BusinessFailures in Addis Ketema Sub City: A Case Study. AA.

Eric Kehinde Ogunleye, and Desire Adebimpe Fashina 2010), THE IMPERATIVES FOR DOMESTIC RESOURCE MOBILIZATION FOR SUSTAINED POST-CRISIS RECOVERY AND GROWTH IN SUB-SAHARAN AFRICA, ogunleye@acetforafrica.org

Ethiopian Development Research Institute (EDRI, 2014)

Ethiopian Economics Association (*EEA, 2009 121*) (EEA Vol. VII 2007/08), **DEVELOPMENT, PROSPECTS AND CHALLENGES OF THE ENERGY SECTOR IN ETHIOPIA, Addis** Ababa, Ethiopia **2009**.

FEMSEDA, 2006 Eth.C.) & (FEMSEDA, 2007) Annual publications.

Ferman, M. and A. Lessik (1989) ―the Impact of Classification on Policy', in A. Gesses, et al. (eds), Small Enterprise, New Approaches (pp, 105- 122). The Hague: Ministry of Foreign Affair, Directorate of International Cooperation

Gibbs, M. (2007). Trade and development UN DESA N*ational Development Strategies& Policy* Notes. *esa.un.org/techcoop/documents/PN Trade Policy Note*.

Growth and Transformation Plan (GTP) 2010/11-2014/15

Howard, P. and Saggi, K. (2006) the Case of Industrial Policy: ―A Critical Analysis ― *www.ycsg.yale.edu/focus/gta/case_for_industrial.pdf*

http:/www.consutancyafrica.com/index php? December 2011 08:18

Increased Import Substitution: Chamber of Commerce AA

ISSN 1916-9655 E-ISSN 1916-9663

Kebre Mogus, (2008)[1], ―Ethiopia's Trade Relation with the EAC and Sudan" Addis Ababa, Ethiopia.

L. Gudissa, 2013) ―The Role of Customs Tariff: A Historical, Theoretical and Empirical Review" ***www.iiste.org/Journals/index.php/JEDS/article/download/.../14119*** ***accesses 12/4/14*** lemmagud@gmail.com **My ref 70**

Lu, Y. (2011). ―Free Trade or Protection": A Literature Review on Trade Barriers. Jing Ma (Corresponding Author), ―Research in world Economy :"www.sciedu.ca/rwe vol.2, No.1:April 2011 *www.sciedu.ca/journal/index.php/rwe/article/download/192/77*

Marchand , B.U. (2008). ―Encyclopedia of Global Business in Today's World";

MICHAEL L. FAYE, JOHN W. MCARTHUR, JEFFREY D. SACHS and THOMAS SNOW

Ministry of Trade and Industry1997). FEMSEDA Report (1994-1995)

MOFED, (2010) Growth and Transformation Plan 2010/11— 2014/2015, September, 2010, Addis Ababa. *www.vliruos.be/media/1829405/growth_and_transformation_plan.pdf*

MOFED, 2006), ―Plan for Accelerated and Sustained Development to End Poverty" (PASDEP), (2005/06-2009/10) Volume I: Main Text.

Mohammed Yimer, 2015)" Economic and Social Transformations of Korea"; Lessons for Developing Countries With a particular Relevance to Ethiopia, ***International Journal of Political Science and Development,*** Vol. 3(3), pp. 138-151, March 2015 http://www.academicresearchjournals.org/IJPSD/Index.html

Mulugeta Gudeta The Manufacturing Industry: Challenges and Prospects file:///D:/r Addis Ababa Chamber, manufacturing **industry**://www.cepal.org/prensa/noticias/comunicados/8/7598/chang.pdf **Ref 66 Imp.**

Mulugeta M. (2008) ―Underlying Causes of Micro and Small Business Failures" Addis Ababa University Addis Ababa, (2008). *dreamethiopia.org/sites/default/files/Endalkachew%20Mulugeta.p*

Nathan, (2004) ―Infant Industry Protection and Trade Liberalization in Developing Countries," ―Import Substitution Industrialization." Case Studies and Econometric Analysis. Research Report (Washington D.C. (2004). *www.nathaninc.com/sites/.../Infant%20Industries%20Paper%20(Final).pdf*

Pahariva, N.C. (2008). ―Import Substitution and Export Promotion as Development Strategy" Briefing Paper. *www.cuts-citee.org/pdf/BP08-DI-13.pdf*

Proclamation and Regulations: Federal Negarit Gazeta, Proclamation No.685/201 proclamation to restri unfair competition in the market.

R. Dayanandan , 2011 sustainability of micro and small enterprises: imperatives, myths and realities Vol.1,Number 2, Oct.-Dec 2011 **my ref 207**

Rose–Ackerman, 2006), in her book entitled ‗international handbook on economics of corruption stated certain facts on corruption. **Source: https://ustr.gov/sites/default/files/Ethiopia_0.pdf Government procurement relate corruption**

Samuel, F., Tarekegn Garomsa and S. Feyisssa (2011), Narrowing trade Deficit Through

Sanjaya Lal (2013) Reinventing Industrial Strategy: The Role of Government Policy in Building Industrial Competitiveness. ANNALS OF ECONOMICS AND FINANCE 14-2(B), 767–811 (2013 Green College, Oxford University *School of Economics and Trade, Kangnam University, San 6–2, Gugal-Ri, Kihung-Up, Yongin-Si, Kyunggi-Do, 449–702, S. Korea* **Ref 61**

Shaefeddin, M. (2010), Trade Liberalization, Industrialization and Development:" Experience of recer decades".(2010), Addis Ababa. .

_ Shumte G/M, (2014) AA Chamber of Commerce and Sectorial Associations. Article' ―Change or Chaos": ―Small Businesses in Addis Ababa". http://www.addischamber.com/index.php?subPageName=rapaArticles

Solomon Wale, (2013) the state of small-scale industries in Ethiopia: problems and policy issues, structure, problems, and policy issues; AA. My ref 70.

Stefan Neumann**, 2010) Import substitution industrialization and its conditional ties for Economic Development – a Comparative Analysis of Brazil and South Korea.** *www.etd.ceu.hu/2013/neumann_stefan.pdf ref 21*

The Ethiopian Herald Sunday ed. September 6, 2015).

The Reporter Amharic language ed. Vol.20, No. 1602, Pagume1, 2007)

The Reporter, English weekly newspaper, Vol.XIX.No 991, sept 05, 2015)

Third *World Quarterly, Vol 22, No 6, pp 1025–1043, 2001* Of miracles and models: the rise and decline of the developmental state in South Korea: courses.arch.vt.edu/courses/wdunaway/gia5524/Minns01State.pdf

Thomas M. Domjahn, (2013,) ―What (if Anything) Can Developing Countries Learn from South Korea?" Asian Culture and History; Vol. 5, No. 2; 2013

Transparency International‗s *Corruption Perception Index* and the *Ibrahim Index* (**2011- 2015** *April 2011)*[54] WWW.transparency.org and WWW.omi.no (2013)

UK ESSAYS, 2008) **Ref 38: Industrial policy: No website indicated. Export Oriented Industrialization**

In Developing Countries Economics Essay

University of Alberta, Canada. 2008.

http://www.ualberta.ca/~ural/files/Trade%20Liberalization.pdf

Vol. 1, Number 2, Oct.-Dec.2011.

pezzottaitejournals.net/index.php/IJEBEP/article/download/207/pd

Wikipedia, UNICEF Uganda.org/latest/A/ Protectionism. Htm/. *en.wikipedia.org/wiki/Infant industry argument* http://openknowledge.worldbank.org/bitstream/handle/10986/8782/wps3839.*pdf*

Yejoo Kim (2011) SMEs in Africa: Challenges and the role of Government for the future

Yoon Heo ―Development strategy in Korea reexamined: an interventionist perspective" The social science journal 38 (2001)217-231

QUESTIONNAIRE

THIS QUESTIONNAIRE IS EXCLUSIVELY MEANT FOR ACADEMIC PURPOSES.

TO BE FILLED BY MSE'S OWNERS AND EMPLOYEES.

Part one: General Information.

1. Type of the business/sector
   ____
2. Year of establishment____
3. Citizenship Ethiopian Non Ethiopian
4. Your Status in the enterprise.
   Owner &manger ______ Employee____________________
   Manger only ________ If other (Specify)_______________

5. Educational back ground__________________

A. Below high school-
B. High School Graduate
C. College Certificate
D. College Diploma
E. University Degree
F. Second degree

Part Two

A: Basic Business Information

1. Do you believe you get sufficient and appropriate Infant Industry or MSE support from the government, through different regulations and proclamations?
   Yes I believe._________________________
   No I don't believe_____________________
2. Do you believe that Trade liberalization policy of Ethiopia has impeded or enhanced the growth and development of the MSE sector you are currently engaged in?
   Yes I believe____________
   No I don't believe________
3. Do you believe that the qualities and quantities of goods and services currently produced in our country are better and in sufficient quantity to stop imports?
   Yes____________________
   No, importing is right._____________

4 Do you accept that the problems market accessibility is due to imports of

Homogenous products from outside the country, or solely domestic problem.

Yes I believe__________

No I don't believe it is our domestic problem.___________

Part II

B: Basic Business Information

1. Who supported you to start the business? Government NGO's No one
2. Do you have any work experience related to the business? Yes No
3. Why did you prefer to start this business?

   To be self-employment ________ to generate own income________
   Small investment required _____ _ No other alternative for survival__
   Others (specify)____.
4. Do you have business licenses?

   Yes No
5. If your answer for question 4 is ~~-y~~es", how long did it take you to get the license? _____
6. Basically, an entrepreneur needs managerial, technical and marketing skills to carry out business effectively. Do you believe you have these skills?

   Yes _____________ No_____________
7. If your answer for *Q.6* is ~~-y~~es"*, Is it through formal training or learning by doing?*
8. If your answer for question 6 is ―No", why?_____________________________________

   ----
9. Is your business profitable?

   Yes_________ No__________
10. If your answer is ~~-y~~es" for Q9, how do you spend you profit?

    On families ________ expanding business ________________
    Others (specify) ----------------------

____

Factors that Hinder the Success of the enterprise

Sl. No.	Hindering Factors	Number of enterprise Respondents	Percentage
1.	Lack of Premises		
2.	Lack of Credit		
3.	Lack of Capital		
4.	Unavailability of Raw Material		
5.	Competition		
6.	Market Issue		
7.	Lack of Training		
8.	Others		

11. No. of employees you have (Specify hereunder please):

Type of employee	Male	Female	Total
Full time workers			
Part time workers			
Paid family members			
Unpaid family members			

12. Do you have trained personnel problem?

    Yes ____ No_____

13. The legal form of ownership

    Family owned.______________

    Sole proprietorship___________

    Partnership_________________

    Joint venture______________

    Corporation_______________

14. If you are partnership, do you have a formal contractual agreement with your partner?

Yes No

15. Who assisted you in establishing this arrangement/partnership?

AA MSEs office ____________________ NGO __________ No one ____

Others (specify)_____________________

This is Family business_______________

16. Initially paid up capital _____________

17. What are the sources of your start-up capital?

Personal saving_________

Micro finance__________

Borrowed from friends & relatives_______________________________________

Methods of Promotion Adopted by Sample MSEs Owners

Sl. No.	Promotional Methods Adopted	Number of Respondents	Percentage
1	No Advertisement		
2	Poster/outdoor advertising		
3	Trade fair		
4	Business card		
5	TV, Radio and Magazines		
6	Poster and Trade Fair		
7	Business card and poster		
8			
9			

18. Do you normally plan your business?

Yes _______________________ No_______________________________

19. If yes, what are the major reasons to prepare your business plan?

To get loan from banks_________

To get loans/ grants from NGO's-------

Simply required by authorities ______ To use as a guide the operations of the bus.

20. Do you export your products? Yes ______ No___________

If No, Reason ____

Yes________ No (other reason) ______________________

21. How far is your business from main road? _______k. m?

22. What is your promotion media?

a) Posters._______________ b) Advert. On TV Radios & on Magazines_________

c) Trade fair/exhibitions_______ d) Other means ______Business cards_____________

23. Do you have formal or informal business association?

A) Formal_____ B) Informal______

24. What is your future plan?

a) Stop operation ____________________________________
b) Maintain production at the same level ________________
c) Expand the Enterprise______________________________
d) Reduce production capacity_________________________
f) Other Plan (Specify)________________________________

If your answer is Stop, the reason why you stop your business:

____
____
____
____
____
____.

FACTORS AFFECTING MSE:

Please indicate the degree to which these factors are affecting the performance of your business. If the sated problem is high and repetitive put "√" mark on Strongly Agree, and if you only agree, put "√" mark on Agree. If you Disagree, strongly disagree on the listed problems put "√" mark on either strongly disagree and disagree box and if you don't have information about the problem or if you don't know the problem put "√" mark on ―I do not know."

EXTERNAL FACTORS

S/n	P A R T I C U L A R S	Strongly agree	Agree	Disagree	Strongly	I don't Know
1	**Intensity of competition**- 1.1 domestic 1.2 foreign					
2	Climate conditions not conducive with the nature of my enterprise.					
3	**Inability to compete with foreign firms/products**					
4	Rapid and costly technological changes					
5	Due to Non-affordability of business license					
6	Time consumed in registration and licensing					
7	Cultural impact : values, norms towards work Activities at lower level.					
8	Existing government policies are not encouraging Any Other Factor					

Management factors

S/n	P A R T I C U L A R S	strongly Agree	Agree	Disagree	S. Disagree	I Don't Know
1	Division of duties and responsibilities available					
2	High employee turnover/ high labor mobility.					
3	Possibility of getting well trained & experienced employees in the market.					
4	Low cost and accessible training facilities or un affordable training facilities.Available					
5	Dependence on family and relatives for labor					
6	Personal problems (health, social) of owner/manager related to absenteeism.					
7	Experience in management or business leadership.					
8	Market supply of Skilled manpower for strategic business planning or knowledge in business planning. Any other factor.					

.

Control and evaluation

	P a r t I c u l a r s	Strongly Agree	Disagree	Strongly Disagree	I don't Know
1	Overemphasis on short term profitability				
2	Lack of delegation responsibility and accountability				
3	Fear of failure, bankruptcy and risk taking				
4	Lack of quality control systems				
5	Inability to compete with large companies				
6	High family commitment and responsibility				
7	Lack of inventory control. Any other factor				

Marketing Factors

S/n	P a r t I c u l a r s	Strongly agree	Agree	Strongly	Strongly disagree	I don't Know
1	Pproduct/service marketing					
2	Question of skill to set clear and competitive pricing policy					
3	Knowhow for demand forecasting					
4	Location/business site					
5	Customer relationship & Handling environment					
6	knowledge of market environment					
7	Availability of Trained sales staff------------------------ Any other Factor to mention					

Financial Factors

S/n	P A R T I C U L A R S	Strongly agree	Agree	Disagree	Strongly	I don't Know
1	Inadequacy and costly credit facilities and sources					
2	Lack of record keeping and documentation					
3	Poor cash flow analysis and management					
4	Poor management of Current Assets (like inventory, A/R)					
5	High investment in fixed assets during start-up time					
6	Failure to analyze financial statements					
7	Unplanned withdrawal of cash for personal use					
8	Underutilization of company assets (space, machines					
9	Shortage of working capital Any other Factors					

OTHER FACTORS

S/n	PARTICULARS	Strongly agree	Agree	Disagree	Strongly	I don't Know
1	Tax Burden					
2	Political or party affiliated interventions					
3	Lack of infrastructure					
4	Lack of business development services					
5	Lack of incentives in the sector					
6	Poor waste disposal system/ Sanitary problems Any other factors					

Thank you for your cooperation