

**FACTORS AFFECTING THE EXPORT PERFORMANCE OF TEXTILE  
AND GARMENT INDUSTRY; IN ETHIOPIA**

**BY  
WONDU ADUGNA**



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**ADVISOR: GETIE ANDUALEM (PHD)  
ADDIS ABABA UNIVERSITY  
ADDIS ABABA, ETHIOPIA**

**MAY, 2018**

## **DECLARATION**

I, the undersigned, declare that this research is my original work. All sources of materials used for the research have been duly acknowledged. I further confirm that the research has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Name: Wonda Adugna

Date: May,2018

Place: Addis Ababa University

Signature: \_\_\_\_\_

## **ENDORSEMENT**

This thesis has been submitted to Addis Ababa University, College of Commerce and Department of Marketing for examination with my approval as a university advisor.

Name: Getie Andualem (PHD)

Date: May,2018

Place: Addis Ababa University

Signature:\_\_\_\_\_

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**Addis Ababa University**  
**School of Commerce**

This is to certify that the research prepared by Wondu Adugna, entitled: factors affecting the export performance of Textile and Garment industry; in the case of Ethiopia, and submitted in partial fulfillment of the requirements for the award of Degree of Master of Art in Marketing Management complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

Signed by the Examining Committee:

Advisor: Getie Andualem (PHD)

Signature;.....

Date ;.....

Internal Examiner: -----

Signature .....

Date .....

External Examiner-----

Signature:.....

Date;.....

## **Abstract**

The study has investigated those factors, both external and internal, that affects the export performance of textile and garment sector in Ethiopia using both quantitative (OLS regression and Questionnaire) and qualitative (FGD) method of analysis. The study has revealed that previous years' economic growth measured by GDP and FDI made has positive impact on the export performance of the sector and the impact is also statistically significant. Furthermore, REER has significant and positive effect on the export performance. The cost of exporting products to various market destinations is costly and as a result the price they set at international market is becoming less competitive. The domestic price for their product is high and profitable. As a result, exporters are reluctant to export their product into international markets. They prefer to sell their product at home than exporting to the rest of the world. Trade and FDI are considered as the main channels of introducing new technology and new knowledge. As a result firms should consider this as an opportunity to adapt new technology and diversify their production. Price adaptation and ability to offer lower prices can positively affect the export performance of firms. Firms should learn from the best performers domestically and internationally.

**Key Words: Ethiopia, Export, Garment, OLS, Textile,**

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## Abbreviations

ADLI	=	Agricultural Development Led Industry
AGOA	=	African Growth and Opportunity Act
ADFT	=	Augmented Dickey Fuller Test
COMESA	=	Common Market for Eastern and Southern Africa
EBA	=	Everything But Arms
ERCA	=	Ethiopia Revenue and Customs Authority
ETDI	=	Ethiopia Textile Development Institute
FDI	=	Foreign Direct Investment
FGD	=	Focused Group Discussion
GDP	=	Gross Domestic Product
GTP	=	Growth and Transformation Plan
ITC	=	International Trade Centre
KII	=	Key Informant Interview
LDCs	=	Least Developing Countries
MNC	=	Multi-National Corporations
MOFEC	=	Ministry of Finance and Economic Corporation
NBE	=	National Bank of Ethiopia
NIE	=	Newly Industrialized Economies
OLS	=	Ordinary Least Square
RCA	=	Revealed Comparative Advantage
REER	=	Real Effective Exchange Rate
UNCTAD	=	United Nations Conference on Trade and Development
USD	=	United States Dollar
WTO	=	World Trade Organization

## **Chapter one**

### **1. Introduction**

#### **1.1. Background of the study**

The apparel (clothing or garment) industry is considered as one of the most important export sectors in the world, particularly for the developing and least developing countries (LDCs). In 2013, world apparel trade was valued at US\$460 billion which represents 7% of the world's tradable manufactured products and nearly 70% of the world apparel exports come from low and middle-income economies (WTO, 2014). Moreover, the industry is the oldest and the most globalized industry that has shifted rapidly to different parts of the world since the early 1970s. Furthermore, many developing countries have started apparel exports, which have been playing a significant role in the initial stage of their industrialization and economic development (Gereffi and Frederick, 2010). In many developed countries such as the United Kingdom (UK) and other West European nations, the United States (US), Japan, and newly Industrialized Economies (NIEs) including Hong Kong, Taiwan and South Korea, the apparel industry was developed at the first stage of their industrialization and was also the first export industry (Yang and Zhong, 1998; Dickerson, 1999).

Following almost the same pattern, the less developed countries in Asia and Africa, such as Bangladesh, Vietnam and Kenya, have also emerged as important apparel exporters. The transition of the industry has made developing countries as dominant exporters in the world apparel market. For instance, developing countries contributed only 25% of worldwide apparel exports in the mid-1960s, which has increased to more than 70% by 2013 (WTO, 2014). Moreover, the industry has created 40 million direct employment opportunities, especially for women, which comprises a significant portion of total manufacturing employment in some developing countries (Gereffi and Frederick, 2010).

Exporting has been one of the fastest growing economic activities in the world especially over the past two decades. It is important as it accelerates the pace of economic growth, creates new jobs and improves living standards of the people on the macro-level, as well as increases the profitability and competitiveness of the firms at the micro-level. Export is an activity in which products are made or grown domestically but shipped and sold abroad (Griffin & Ebert, 1995). Export is an activity of sending goods to another country for sale (Dictionary). The firms can consider export under circumstances like when the cost of production in the foreign market is high, the volume of sales in the foreign market is not enough to break even, the foreign market is not a long-term market, the product may not have enough life to justify huge direct investments and the political factors are not conducive (Cherunilam, 2005). Exporting allows firms in developing countries to enlarge their markets and benefit from economies of scale. In addition, several scholars have pointed out the importance of exporting as a channel of technology transfer (Pack, 1993). In order to formulate trade and industrial policies aimed at stimulating exports, it is important to understand which factors stimulate or deter firms to enter to the foreign markets.

Textile and garment sector is among the priority subsectors <sup>1</sup> identified by the Ethiopian government in transforming the country's traditional agricultural based economic activity to industrialization lead rehearsal. Currently, Ethiopian textiles and apparel industry encompasses spinning, weaving, finishing of textiles, manufacture of cordage, rope, twine, netting, knitting mills, and manufacturing of wearing apparel. The firms in the industry produce products such as cotton and woolen fabrics, nylon fabrics, acrylic and cotton yarn, blanket, bed sheet, shirts, carpets, gunny bags, wearing apparels, and sewing thread. Currently Ethiopia has above 190 Textile and garment firms including ginning, spinning, weaving and knitting, and integrated and traditional clothing-making companies out of which 80 are involving in manufacturing of export goods (ETDI Company's profile, 2017)

In recent years, Ethiopia has given special attention to the investment activity. This special attention given to the manufacturing sector has enabled foreign investors to look into the

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<sup>1</sup> Agro processing, leather, metal

country. This is witnessed within the past ten years in which the total FDI of the country has increased dramatically and makes Ethiopia to become the first in Africa and the second in its remarkable growth in the world (Ethiopian Investment Commission report, 2016). Particularly the establishment of industrial parks in different regions are witnesses how the country give special attention for the manufacturing sector.

Ethiopia, one of the fastest growing economy country (WB report, 2016) in the world has a comparative advantage on textile and garment sectors because of suitable climatic conditions for production of raw-materials of the sector, abundance and relatively lower cost of labour force and the demand of developed country shifted to use products of least developing countries like Ethiopia

The country is striving to make the manufacturing sector to play a great role in GDP growth, job creation, foreign exchange earnings and SME development. The Government of Ethiopia is supporting the privates sectors which are engaged in the manufacturing sector with different incentives and support to ensure accelerated industrial growth and improve foreign exchange earning needed for development and investment. These incentives and promotion are used as tools of achieving transformation into industry led economy and improving the business environment for domestic products to be competitive in the international markets.( GTP I 2009-2015)

Furthermore in the fall of 2015, the government finalized and published the current 2016-2020 five-year plan, known as the Growth and Transformation Plan II, which emphasizes developing manufacturing sectors where Ethiopia has a comparative advantage, such as textiles and garments, leather goods, and processed agricultural products.

However, as in the case of many developing countries, Ethiopia's export has been limited to few products, which are mainly agricultural commodities. Even though service sector has the highest share for the economy, the foreign currency earning depends mainly on primary products export that cannot compensate the foreign currency requirements for import. The Ethiopian export

sector in general registered a 19.2 percent average growth but the growth does not enrich the target set by the Government. The manufacturing sector of the country also did not meet the targeted objective of the government as the total export didn't fulfill its target set in revenue generation expectations (Emagne Yetsedaw, 2014) unpublished paper. According to the World Bank fact book report (2017)<sup>2</sup> manufacturing represented less than 8% of total exports in 2016, but manufacturing exports should increase due to a growing international presence. Accordingly the textiles and garments exports haven't seen a significant increment and it constitutes just about only 2% of total exports in 2015<sup>3</sup>.

For the aforementioned export performance target gap most of the findings of the study consider the supply side factors than demand side but this study will take into account both the demand and supply side factors that can affect the export performance.

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

The government of Ethiopia has put in place different incentives and engaged into economic, social and political reform activities that enable the country to attract textile and garment industry. Ethiopia's Industrial Development Strategy issued in 2002 emphasizes the need to follow export-led growth, pursue Agriculture Development Led - Industrialization (ADLI), create linkages between internal and external investors with the purpose to develop the industrial sector and enhance its contribution to the overall economic growth. The strategy also depicts that the textiles and garments sector is one of the strategically selected priority export- oriented sub-sectors (FDRE Strategy, 2002).

The export performance of textile and apparel industry geared up from USD 62.2 million in 2010/11 to USD 85 million in 2011/12, USD 111.353 million in 2013/14 and USD 160 million in 2015/16 (MOFEC, 2017) . Despite Ethiopia's ambitious plan to earn 1billion USD in the GTP I (2009-2015) from the textiles and garments sector, GTP I implementation report of MOFEC

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<sup>2</sup> [http://www.indexmundi.com/ethiopia/economy\\_profile.html](http://www.indexmundi.com/ethiopia/economy_profile.html)

<sup>3</sup>Extract from the First Quarter Report of 2014-15

(2015) revealed that the actual performance of the sector was only about 456 million USD 46% of the plan which far behind the target. This shows that even if the export performance of the sector increases from year to year, comparing to the targets set in GTP-I was not very encouraging. Hence, it is very imperative to comprehend well the reason why the export performance far behind from the target.

As cited from Abay and Zewdu (1999) distinctive structural problems, weak policy frameworks and institutions, protection at home and abroad (IMF and World Bank, 2001), and the structure of African exports, which is characterized by dependence on primary commodities (Alemayehu, 2006; UNCTAD, 2004) are considered as the reasons for Africa's as well as Ethiopia's poor general export performance.

Having these unsatisfactory performances and given the Government's endeavor to increase the country's foreign exchange earnings by tracking concrete policy measures and incentive schemes calls for specific studies anxious with systematic identification of factors affecting the export performance of Ethiopia's textile and garment industries. More precisely, this study has investigated the effect of Gross Domestic Product, Real Effective Exchange Rate, Foreign Direct Investments and Market Opens by specifying an econometric model as well as Firm characteristics and marketing strategy using qualitative data analysis so as to provide recommendations for policy and firm level strategy with regard to export performance enhancements of the sector under the case..

In addition those different studies conducted on the same subject area were merely either using econometrics model or qualitative method of data analysis. Whereas, this study paper has employed the combination of both techniques. That is, qualitative data analysis is used to support the findings drawn from the specified econometrics model and to analyze the data gathered using different data collection instruments including Focus Group Discussion and Questionnaire.

### **1.3. Research Questions**

#### **1.3.1. Main Research Questions**

The basic research question that are answered in this study includes:

What are the internal and external factors that can affect the export performance of Ethiopia's textile and garment industry sector?

#### **1.3.2. Sub Research Questions**

In line with the above basic question, the research has further attempted to address the following sub research questions.

- Dose Growth of Domestic Product (GDP) affects the export performance of Ethiopian textile and garment industry?
- Does the inflow of Foreign Direct Investments (FDI) affect the export performance of Ethiopian textile and garment industry?
- Dose Real Effective Exchange Rate (REER) affects the export performance of Ethiopian textile and garment industry?
- Dose Trade Opens (TO) affects the export performance of Ethiopian textile and garment industry?
- Dose Firm Characteristics (FC) affects the export performance of Ethiopian textile and garment industry?
- Does Marketing Strategy (MS) affect the export performance of Ethiopian textile and garment industry?

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

### **1.4.1 General Objective of the Study**

The overall objective of this study is to identify the internal and external factors that can affect the export performance of textile and garment sector in Ethiopia and to draw implications for the export performance based on the empirical and descriptive findings.

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

- To investigate the effect of Grosse Domestic Product on the Ethiopian textile and garment Industry's export performance
- To investigate the effect of Foreign Direct Investment on the Ethiopian textile and garment export performance
- To investigate the effect of Real Effective Exchange Rate on the Ethiopian textile and garment Industry's export performance
- To investigate the effect of Trade openness on the Ethiopian textile and garment Industry's export performance
- To assess the effect of Firm Characteristics on the Ethiopian textile and garment Industry's export performance
- To assess the effect of Export Marketing Strategy on the Ethiopian textile and garment Industry's export performance

## **1.5. Definition of Terms**

**Real GDP:** - Real Gross domestic product of Ethiopia is taken as one of the factors affecting the performance of textile and garment in Ethiopia.

**FDI:** - Foreign direct investment (FDI) is an investment made by a company or individual in Ethiopia in business interests from another country, in the form of either establishing business

operations or acquiring business assets in Ethiopia, such as ownership or controlling interest by international-company.

**Real effective exchange rate:** - Real Effective Exchange Rate (REER) is based on the IMF definition of the real exchange rate that is real exchange rate as price of domestic currency against foreign currency (IMF handbook). The calculation of the average real exchange REER =  $E \cdot P^* / P$  Where E is the nominal exchange rate, P\* is the consumer price index of the foreign country and P is the domestic consumer price index (Ethiopia in this case).

**Trade openness:** - As it is presented in Fujii (2017), the degree of integration of a country to external market which is measured as proxy by the sum of export and import of goods and services to GDP.  $To = (M + X) / GDP$  where M is Import, X is export and GDP is gross domestic product.

**Firm Characteristics:** - According to Julian, (2003) Firm-specific characteristics were measured in terms of firm size, firm age, the amount of international experience the firm has, the resources the firm has for export development, the firm's management and resource commitment to the given export market venture.

**Export Marketing Strategy:-** internal determent measured visa -a- vies marketing mix adaptation, overall support given to distributors/subsidiaries in the export market, degree of adaptation of product positioning strategy and degree of adaptation of product's packaging

## 1.6. Significance of the study

This study will play its own role to finding out the main external and internal factors that can affect the export performance of the Ethiopian textile and garment industry and suggest policy and strategy for the sector development. This research work has also significance for the researcher to build a good understanding of the study area. Furthermore, to the researcher's

knowledge, there is no research conducted to investigate the determinant of export on textile and garment industry export performance by combining both econometric (secondary data) and primary data survey method in Ethiopia. Thus, it will add the value to the already existing stock of knowledge and will supplement the existing empirical literature from the Ethiopian perspective. And, the findings of this research may contribute for other researchers who want to conduct research in the same area.----

### **1.7. Delimitation/scope of the study**

This study is delimited to investigate the effect of external factors (Real Effective Exchange Rate, Trade Openness, Foreign Direct Investment and Gross Domestic Product) and internal factors (Export Market Strategy and Firm characteristics) on the export performance of textile and garment manufacturing industry. The time period used in this study is 27 years (1991 to 2017) period for analyzing export performance and external variables. Most of the variables are used as proxy measure, due to lack of reliable, separate and detailed data. Moreover, due to doubt on the quality, consistency and reliability of the existing data, the quality of the estimated results could be reduced.

### **1.8. Organization of the study**

This paper is organized in five sections. Section one presents about Introduction, Background of the study, Statement of the problem, Research questions, Research objectives, Significance of the study, limitation of the study and scope of the study, and section two contains Literature reviews, including theoretical and empirical evidence on factors affecting the export performance of textile and garment as well as hypothesis and conceptual frame work. While Section three discusses research design and methodology, data source and description, model specification, estimation techniques and section four presents data presentation, analysis and discussion on results of the study. Finally, section five presents summary of findings, conclusion and recommendations based on the empirical findings, quantitative and qualitative analysis discussed in chapter four

## **Chapter Two**

### **2. Literature Review**

#### **2.1 Introduction**

Various empirical and theoretical works of many scholars who conducted on the subject matter are reviewed so that the study will have its own side on the determinants of export performance of textile and garment industry in Ethiopia which can be further extended into the developing countries economy.

So far, no clear conclusion has been drawn on the factors affecting the export performance of textile and garment sectors in both developing and developed countries. Different scholars have identified and used different variables while investigating on the determinants of export performance depending on the type of model they applied and is also different from countries to countries. In the following sections, theories and empirics that are developed on the area are presented and discussed.

#### **2.2 Theoretical Review**

Economists have proposed several theories to explain international trade. For a long time the neoclassical Heckscher-Ohlin model<sup>4</sup> has been the dominant paradigm. The model states that countries specialize in the production and export of products in which they have a comparative cost advantage caused by relative abundance of a certain factor of production. For a typical developing country with a relative plenty of labor and a shortage of capital, this would imply export in labor intensive goods such as textiles. In contrast, industrialized countries, would export capital-intensive goods. However, to reach this conclusion the Heckscher-Ohlin model requires very strong assumptions such as perfect competition, no economies of scale and costless availability of technology. In the eighties, so-called new or strategic trade theory loosened some

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<sup>4</sup> In accordance with Ricardian theory, comparative advantage happens due to technological dissimilarities across nations, whereas the H-O theory considers cost dissimilarities occurs due to differences in factor prices across countries, assuming constant technology

of these stringent assumptions to allow for other sources of comparative advantage. Various models were constructed in which imperfect competition and economies of scale determined international trade patterns (Helleiner, 1992).

Although the theories outlined above are very broad and mainly used to explain trade patterns between countries, they also provide useful guidance in explaining export at a lower level of aggregation. Previous empirical research showed that comparative advantage in costs, scale economics, perfect competition and technology are also important determinants of export at the firm and sector level. Most theories are based on the premise that the shortage of resources faced by small exporting firms constrains their ability to reach more advanced stages of internationalization or export compared with larger firms. Among these theoretical arguments, the resource-based view of the firm and international economies of scale theory still remain those most commonly used in the construction of export strategy and performance models.

The international economies of scale theory consider that small firms encounter substantial difficulties in their export expansion due to lack of resources. Firms are expected to incrementally enter geographically close markets with less cultural distance. Nevertheless, large firms have a larger amount of the required resources when entering new markets and exhibit scale advantages compared to smaller firms.

Multinational Enterprises (MNE) are expected to export more *ceteris paribus* because they enjoy certain benefits not available to locally owned firms. Ramstetter (1999) describes two mechanisms how this works. First, because of access to superior production technology and management know-how, MNEs can produce more efficiently and secondly, MNEs possess sophisticated (international) marketing networks that facilitate exporting. Testing for this hypothesis, Ramstetter finds foreign ownership to be significant and positively related with export propensity using the same dataset on Indonesian firms as used in this study but a different time period.

In the following parts, this research will attempt to discuss what conclusions have made on the impacts of GDP level, exchange rate policy, Foreign Direct Investment, Trade Opens, and the effect of firm characteristics and export marketing strategy visa-a-vise the export performance of textile and garment industry.

### **2.2.1. Gross Domestic Product level and Export Performance**

Export is a vital component of the international trade and economic growth as the mercantilism and classical theories explained. The Heckscher Ohilin theory, the prominent theory, postulated that export is key factor to reduce the gap between the rich and poor. Further, Helpman (1984) proposed that export help to promote technology and knowledge diffusion and thus accelerates economic growth. The export outcomes can be affected by different factors. These factors can generally be divided into demand and supply factors.

Another famous economic model about export and economy is Keynesian view of expenditure approach. According to this approach, aggregate demand in the economy highly depends on the personal consumption expenditure spent by households, investment spending, government expenditure and net export where net export is the difference between export and import. Higher export implies that there is higher final goods and services produced within a year. The reverse holds true, in the sense that the better the economy a country registers, the higher tendency of export will be made to the rest of the world.

In contrast to this, the paradox of plenty theory states that a country can sometimes focus too heavily on exporting only one lucrative export that is not a value added export and thus neglects the rest of its economy and decreases it's GDP.

### **2.2.2. Exchange rate<sup>5</sup> and Export performance**

The rate of exchange has a direct concern on export volumes and value of exports. A strong local foreign currency hurts the entire export which includes the manufactured export sector. The exchange price is particularly applicable because it has been seen that many countries' success in export-led growth had involved government interventions to make certain competitive actual exchange costs. Usually a certain degree of macroeconomic stability, low inflation and competitive actual exchange rate are regularly needful for rapid growth of export performance (Zhang & Hathcote, 2008).

According to Elbadawi and Helleiner (2004) exchange rate can promote the export growth and the comparative advantage. Comparative advantage model suggests that differences in resource endowment and technology are key factors in determining trade pattern of a country. It is known that this model uses perfectly competitive market assumptions, however, the decision on economy based on the perfectly competitive assumptions are not necessarily the best for a country particularly in the long-run. Hence, government policy interventions are justifiable on efficiency grounds to achieve a socially efficient production and trade pattern. So from the government intervention, a real exchange rate policy is an important macroeconomic policy instrument that governments can use to influence the trade of the country. despite the theoretically no clear consensus on the effectiveness of manipulating the Real Exchange Rate to reshape the comparative advantage and expand the export of a country, exchange rate has a significant instrument and determinant to influence the export.

Rodrik (2009) argues that the real undervaluation expands exports and growth by reducing the foreign currency value of the additional transactions costs. Similarly, the study conducted by Edwards and Alves (2006) showed that the depreciation of the exchange rates would rise the export prices since domestic exporters are price-takers in the international market. Since labor-intensive industry, such as textile and apparel industry, appear to be particularly sensitive to the

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<sup>5</sup> The exchange rate is the rate at which one currency purchases other currency. In other words it is the purchasing power of one currency in terms of another currency. It is also the external value of one currency. The rise in exchange rate against another currency is called as appreciation and the fall is called as depreciation.

exchange rates changes, textile and apparel producers in developing countries experience lost profits and even a breakdown, due to a rising exchange rates in global trade (Kaplinsky & Morris, 2008).

The elasticity approach tries to predict the outcome policy changes will have on the Balance Of Payments. For example, this approach illustrates how exchange rates will affect the balance. Further, the elasticity approach assumes that if the BOP is in equilibrium, devaluation can improve the Balance Of Payments. However, for devaluation to function successfully, the total of the price elasticity of domestic and foreign demand for imports has to increase. When a country devalues a currency, it improves the Balance Of Payments under ideal conditions. This ideal condition is known as the Marshall-Lerner condition.

Marshall-Lerner Condition states that currency devaluation will eventually improve the balance of payments. In order to accomplish this increase in the BOP, however, the sum of demand elasticity for imports and exports has to increase. When a country devalues its currency, the price of exports will decrease. This, in theory, will increase the demand for these exports. However, for increased demand to occur, the exported products have to be elastic products.

Contrary opinion indicated that when the exchange rate used to manipulate the export outcomes, wage costs will fall in foreign currency terms, more goods are produced at home, and this replaces imports or expands import substitute production than induce export (Krugman, 1999). Furthermore, effects of exchange rates on textile and apparel the influences of labor costs and number of employees are more significant than exchange rate (Gerard, Byron, & Yochanan, 2006).

### **2.2.3. Foreign Direct Investment and Export Performance**

The link between FDI and export performance can be traced and hypothesized by applying the flying-geese model, the product lifecycle theory and the new growth theory.

The flying-geese model provides a migratory image where Japan is the leading country in industrialization Asia, while other countries behind and follow the Japanese model. It depicts that a country's shifting competitiveness with time lags by paying attention to the dynamic changes in the endowment of factors such as labor, capital and entrepreneurship (Tung, 2006).

In far east Asia and ASEAN countries, the flying-geese type of FDI played a dominant role in the emergence of new industries (Ozawa, 2010). The essential factors in the FG model are labor cost and trade openness, because they can be used as the comparative advantage tool for stimulating trade. This model pointed out that MNC has been shifted from higher cost home country to the lower cost countries to achieve their profit goal. Similarly, there is dynamic changes of the industrial structure in these countries like the shift from the textile industry to the chemical industry and then to the steel and automobile industry and this leads to shift of industries across countries on finding cost advantage. The changing location of FDI reveals the catching up process of industrialization. Flying-geese model suggests that increasing exports performance of the host country due to increasing FDI which is motivated host's country factor endowment for lower production and brings technology, capital and expertise; stimulate the local firm exports ability.

Ethiopia owning abundant and cheap labor attracted FDI in labor intensive industries and light manufacturing industries in the last 10 years (van der Pols, 2015). Increase the inflow of FDI in the textile and garment industries ended until the Ethiopia cost advantage on the factor endowment turn down.

The Product lifecycle theory emphasizes the changes in the production process over time. In this theory, production has four stages including the stage of innovation, growth, maturity and decline. The same firms that initiate a product for consumption in home markets will undertake FDI to produce a product for consumption in foreign markets. Again, the theory explains that the phenomenon of an increasing number multinational corporations (MNCs) in advanced countries shift to developing countries when product standardization and market saturation give rise to price competition and cost pressures. The first stage production, MNC and other companies tend

produce the new innovative product for the home consumption and foreign market without undertaking FDI. At the stage of growth, companies begin to undertake FDI and incline to joint venture investment with the home countries industry to set up production. In the maturity stage, the main focus of the produce is looking the cost minimization, the flow investment shifted from advanced countries to the lower cost countries. however, in this stage the output which is produced by the MNC serves to the local market and the rest of the world (Charles W. L. Hill, 2011).

The new growth model perceives FDI as a means for technological progress which is a product of economic activity, and help to stimulate productivity in the recipient countries. This technological progress and productivity increase the return in the production function, the return leads economic growth (Shan, 1998).

FDI is expected to augment knowledge transfer by increasing the existing stock of knowledge in the host country through labor training, acquisition of skills, introduction of alternative management practices and organizational arrangements. Innovation by domestic firms is expected to increase due to competitive pressure and knowledge transfer(Mello, 1999). The new growth theory predicts that if the FDI involves in the knowledge transfer, the ability of exporting of firms stimulated within the host country.

Fast growing economies may not be able to support the fast growth with domestic capital alone and there is a strong need to attract Foreign Direct Investment (FDI) particularly those sectors that contribute maximum to the economic growth like the textile sector because the domestic capital may not be sufficient to enhance the production capacity and modernize the entire system (Chaudhary, 2011). Developing countries like India can be complacent with attracting and absorbing FDI, and especially in the textile sector, as the need for modern machinery is very well founded.

It is concluded that FDI promotes exports by augmenting domestic capital for exports, help transfer of technology and new products for exports, facilitating access to new and large foreign markets and providing training for the local workforce and upgrading technical and management skills. However, there is some arguments against that FDI may lower or replace domestic saving and investment, transfer technologies which are inappropriate for the host country's factor proportions, target primarily the host country's domestic market and in facts does not increase exports and others (Zhang, 2006).

Therefore the impact of FDI on export performance can be hypothesized as that FDI has either positive or negative impact on the export performance.

#### **2.2.4. Trade Openness and Export Performance**

As it is stipulated in the works of Zakaria (2014), over the past sixty years, particularly in the last three decades, one of the pronounced characteristics of the world economy has been that developing countries have experienced rapid trade liberalization either unilaterally or as part of multilateral initiatives with the World Bank, WTO and the IMF<sup>6</sup>. The simplification of import procedures, the reduction or elimination of quantitative restrictions and the rationalization of the tariff structures are the most widespread reforms (Cherkos, 2017). These trade liberalization reforms have important implications for exports, imports and trade balance of the developing countries. Many developing countries are still reluctant to liberalize their economies as it will deteriorate their trade balance as imports will increase more than exports after liberalization.

Theoretical literature has developed mainly three approaches to explore the effect of trade liberalization on trade balance of an economy namely the elasticity approach, the absorption approach and the monetary approach. The elasticity approach is mainly concerned with exploring the effects of trade liberalization on export and import price elasticities. The argument

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<sup>6</sup> The aid policy of the major donors had altered and developing countries were supposed to include opening of their economy to external competition in their long-term growth and development strategies while implementing the Structural Adjustment Programs.

for analyzing the relationship between trade liberalization and exports is that the reduction or elimination of trade policy distortions reduces anti-export bias, and therefore improves export competitiveness.

Some scholars such as (Taneja, 2012, Kongmanilaa & Takahashi, 2009) strongly acknowledge that the more open economy to the external world the higher will be its foreign exchange earnings from export. The implication is that a country needs to integrate to the world market by diversifying its trading partners.

### **2.2.5. Firm Characteristics, and Export Performance**

In order to utilize resources, firms need capabilities and complex skills so that they can coordinate activities in a way to achieve the highest advantage (Morgan et al, 2006). In the following section, an attempt is made to discuss the details of those internal factors categorized as firm characteristics which involve firm's resources and marketing strategy that can affect the export performance of firms.

According to Julian, (2003) Firm-specific characteristics were measured in terms of firm size, firm age, the amount of international experience the firm has, the resources the firm has for export development, the firm's management and resource commitment to the given export market venture, and are explained as under mentioned

**2.2.5.1. Firm Size:** the size for which the number of employees is the best variable. Firms should be large enough in order to be capable of competing in the global market. According to the increasing competition and improvements in communication networks, larger firms have better advantages in the international market. The relationship between size and performance cannot be generalized since it depends on export strategies. Larger firms are more likely to adapt in contrast with smaller firms who have restricted resources (Bhavani and Tendulkar , 2010),

**2.2.5.2. Firm Age:** According to Gurusamy (2016), age of firm is generally an indicator of learning throughout the time and since engaging in export activities takes a long time, firm age is a very important factor. Some researchers have considered a relationship between firm's age and the export performance. They believe that firms in early stages can have better performance if they are more adaptive. If not for this, older firms are more likely to adapt marketing strategies.

**2.2.5.3. International Experience:** International experience is a source of competitive advantage since it leads to designing appropriate strategies. When a firm has more international experience, there is more likelihood of not just using standardization for gaining worthy results. A firm with international experience distinguishes environmental differences, selects the most attractive market and is more probable to adapt marketing strategies (Agarwal and Ramaswami, 1992). Evidence shows that the management's international business experience and training is an advantage that has a significant relationship with price adaptation and impacts performance.

**2.2.5.4. Education:** The employees of firms with weak performance were generally less educated and had fewer skills; yet, some researchers did not observe any specific influence of education on export. It is suggested that education and experience would create a better performance in the export capacity of a specific firm (Julian, (2003).

**2.2.5.5. Innovation:** Technology innovation affects export activities by increasing the production, reducing costs and developing new products for international markets. There exist three kinds of innovation specifically, product innovation such as new products or changes in design and packaging; process innovation like introduction of quality control and information technology; and finally management and organizational innovation, for instance introduction of strategic planning. According to literature, innovation is a key factor for the firm performance and it will perform better by accepting new ideas. A firm that changes its activities toward new ideas and applies innovation as a valuable resource is likely to use higher levels of product adaptation (Morgan et al, 2006).

**2.2.5.6. Market Knowledge and Research:** Another factor is market knowledge which is very vital for decision making and is a competitive advantage for the firm. More market knowledge makes the firm more active in pursuing the external opportunities and international development. After doing market research and considering market demands, the marketing manager identifies the target market and discovers the best marketing strategies based on the features of target market and by the use of marketing information. A firm without knowledge of market demands and customers will face troubles in employing market opportunities. Studies on export have shown that many exporters ignore marketing research and they encounter sever problems in analyzing the foreign market and taking advantage of it (Saravanan and Eta'al, 2013)

**2.2.5.7. Commitment:** The last firm characteristic discussed in this work is export or management's commitment. According to Bhavani and Tendulkar (2010), less committed managers tend to standardized strategies since they are performed more easily. Committed firms allocate more resources to export activities and have long term planning which leads to appropriate marketing strategies considering market demands. Uncertainty is diminished by commitment and marketing strategy is implemented effectively which results in a better performance.

## **2.2. 6. Export Marketing Strategy and Export Performance**

It is approved that firms must have an accurate and sufficient combination of key resources in order to design and implement marketing strategies. Although an exporting firm may access many resources, those related to human, marketing mix adaptation or standardization, finance and information aspects are the most significant for designing a precise marketing strategy.

The standardization versus adaptation of the international marketing strategy (marketing mix) and its relationship with export performance has been a focus of many researchers (Morgan eta'al, 2006). In existing literature there are many arguments, presented by different authors, favoring standardization, but on the other hand there are also numerous studies that support

advantages of marketing mix adaptation. The main purpose here is not to make comparative analysis but to evaluate the influence of adaptation or standardization of the marketing Mix on the export Performance of Textile and garment industry

Companies operating in one or more foreign markets need to decide at list how much to adapt their marketing strategies and programs to local conditions. However the question of whether to adapt or standardize the marketing strategy and program has been much debated over the years .In line with this there are two extreme scenarios, at one extreme there are global firms that use standardized global marketing strategy (essentially using the same marketing strategy approaches and marketing mix worldwide).

On the other extreme there are companies that adapted global marketing where the producer adjusts the marketing strategy and mix elements to each target market, bearing more costs but hoping for a larger market share and return. Notwithstanding global convergence, consumers in different countries still differ significantly in their needs and wants, spending power, product preferences, and shopping patterns. As it is difficult to change these differences, most marketers today adapt their products, prices, channels, and promotions to fit consumer desires in each country (Philip Kotler, Gary Armstrong. 14th Ed.). (Aaby and Slater, 1989) also stated that export performance is determined by export strategy and characterized by marketing mix i.e. product, pricing, place and promotion employed in respect of export markets. (Cavusgil and Zou, 1994) further express that export marketing strategy was measured in terms of the degree of product adaptation required, the extent to which the product label was in the local language, the degree of adaptation of the product's packaging, positioning strategy and Promotional strategy in the export market and the support and training provided to the Export market venture's distributors/subsidiaries which this research will take as a frame work.

This research study will put the maximum effort to evaluate the identified internal factors and investigate those internal determinants of firm's export performance qualitatively using the data gathered via different data collection instruments directly from relevant stakeholders including the managers, directors of firm's Textile and Garment export associations and some governmental officials.

### **2.3 . Empirical Review**

This subdivision clearly presents the works of different scholars that explores the impact of globalization on the economy of developing countries using various methodological procedures. It is understood that researchers have used different techniques and different proxies for export performance and also for the explanatory variables.

Saravanan and Etal (2013) have explored the determinants of and factors affecting the export performance of textile industry. The tools used by the various researchers and their findings are studied in order to establish the academic contributions made by these studies to the existing body of knowledge, new models developed and also highlight method adopted or suggested by researchers for conducting researches in the area of export performance of manufacturing industries with special focus on textile sector in developing countries. The article analyzed researches carried out in China, India, Sri Lank, Bangladesh and Pakistan. These economies are the dominant textile exporters in the international trade. The review highlights that most of the studies have been carried out on establishing the relationship between GDP, exchange rate, labor, capital (FDI) and technology with export performance of textile industry. Most of the researchers found a positive relationship between the above said variables and textile exports.

The study of van Dijk (2002) attempted to determine the factors affecting export performance for Indonesian manufacturing firms. It highlighted the importance of sectoral variation in determining export activities and concluded that relative size, foreign ownership and age were significant factors across all sectors while skilled labor differs according to the industry which the firm belongs. The study also demonstrated that research and development activities in Indonesia only benefit exports in relatively mature industries while capital intensity does not influence export behavior in scale-intensive firms.

Siddiqi *et al.* (2012) examined the determinants of export demand of textiles and the clothing sector of Pakistan using annual data for the period 1971–2009 using the Johansen and Juselius methodology of maximum likelihood cointegration technique. As discussed in their paper, world

income is the major determinant of export demand for textiles and the clothing sector of Pakistan. Trade openness which is used as a proxy of trade restrictions is the second major determinant of export demand. Other variables such as the price of textiles in the export market and the exchange rate were also found to be significant determinants of export demand.

Niluka E. (2015) has evaluated the determinants of export demand for textiles and garments of Sri Lanka, using quarterly data from 1999 to 2013. A long run relationship is found between export demand and explanatory variables. The empirical results reveal that the depreciation of the real exchange rate does not increase the demand for Sri Lanka's textiles and garments, as this industry is found to be heavily dependent on imported raw materials. World GDP which proxies the income of buyers is also a major determinant of export demand. It is also found that the GSP plus (Generalized System of Preferences-plus) and MFA (Multi-fiber Arrangement) had a positive and significant impact on the demand for textiles and garments of Sri Lanka as they provided duty free access to major textile and garment markets such as USA and EU particularly when the global financial crisis and debt crisis had a negative impact on world demand for textiles and garments. It is surprising to observe that trade openness which proxies the level of trade restrictions between Sri Lanka and the rest of the world shows a negative relationship with export demand for textiles and garments from Sri Lanka.

Daniel T. (2016) has investigated factors affecting the performance of garment exporting industries in Ethiopia particularly the case of Addis Ababa. For the sake of achieving the objectives of this study, interview and questionnaires were analyzed using statistical analysis such as descriptive analyses. The information obtained through self-administered questionnaire from a sample of 16 operators and face-to-face interviews with respondents in the sector was conducted on industries under investigation. The respondent operators were selected using Purposive or judgmental sampling techniques. Besides, the interview questions were analyzed using descriptive narrations through concurrent triangulation strategy. The empirical study extracted major factors which seem to affect export performance of garment industries which include: unavailability of raw material, lack of capital, availability of skilled labor force,

marketing problems, inadequate infrastructures, incapability of management, technological, poor institution and between industry relation and lacking government regulation and incentives. The findings further indicate that, the availability of raw material, skilled labor force, shortage of capital, absence of marketing personal and infrastructure being the most critical factors impeding garment industries engaged in export. Based on findings, recommendations to government bodies, to operators of garment industry sector and suggestions for other researchers are forwarded.

Carneiro and eta al (2011) has investigated the impact of the external environment, firm characteristics and firm strategy has effect on export performance. To this end, a survey was administered to 448 large Brazilian exporters of manufactured products. A structural equation modeling (SEM) approach was used to fit the conceptual model to empirical data. An extensive set of procedures for the validation of measurement models was used. Export performance exhibited a multidimensional structure and the model explained 76.6% and 40.1% of the observed variance of past export revenues and of past export profitability, respectively.

## **2.4 Conceptual framework and Research Hypothesis**

### **2.4.1. Conceptual framework**

As the study aims to examine the effect of external and internal factors on the export performance of textiles and garment industry of Ethiopia by establishing a relationship of GDP Level, Real Effective Exchange Rate, Foreign Direct Investment (FDI), Trade Openness, Firm specific characteristics and Export Marketing Strategy which are independent variables to export performance (dependent variable) the Conceptual framework is depicted as under mentioned.

**Independent Variables**

**Dependent Variable**

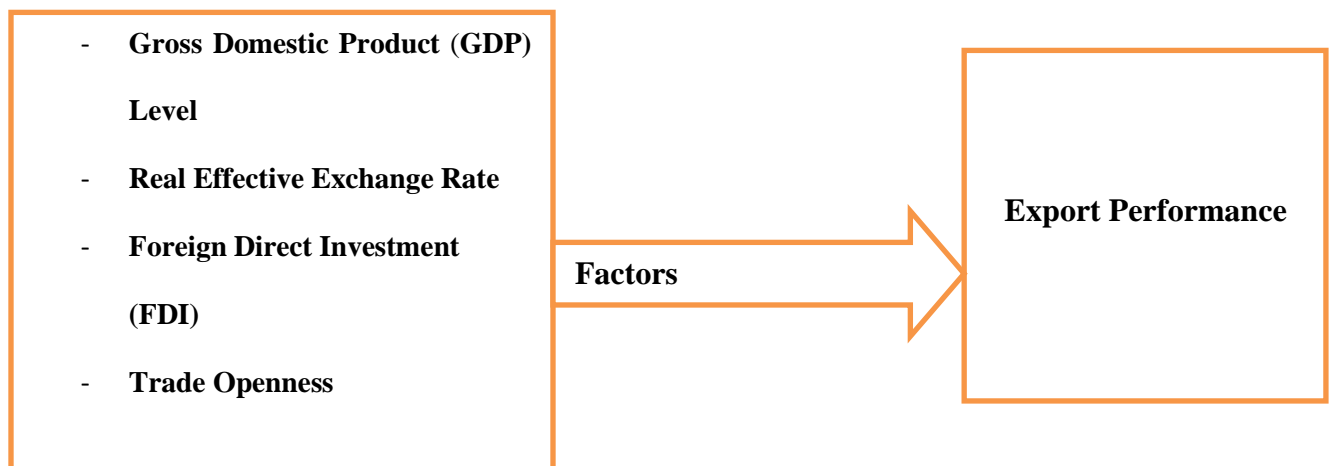


Figure 2.1: Conceptual Framework of Variables developed for this study.

### 2.4.2 Research Hypothesis

Under this study, the following hypotheses are tested based on some findings of the previous studies stated on the aforementioned theories and empirical reviews.

H1: Gross Domestic Product has a positive impact on export performance

H2: There is a positive relationship between Real Effective Exchange Rate and export performance.

H3: Foreign Direct Investment has a positive impact on export performance

H4: There is positive relationship between trade openness and export performance

The effect of Firm-specific characteristics and Export marketing strategy on export performance will be assessed and analyzed qualitatively.

## **2.5. Enabling environment for Exporters in Ethiopia.**

There are various enabling environment introduced by the government of Ethiopia including export incentive, investment incentive and cost sharing. However, in the following section, this study discusses the export incentives.

### **2.5.1. Export Incentives**

The Government of the Federal Democratic Republic of Ethiopia has introduced a number of export and investment incentive schemes, which creates an enabling environment and competitiveness for investors and manufacturer exporters. The incentives schemes introduced in this context are described in the following sections.

#### **1- Export Trade Duty Incentives**

The objectives of the export trade incentive scheme are: to improve the foreign currency reserve of the country by enhancing export trade and to enable exporters access inputs at world market price, so that they will be able to compete on equal footing with their competitors.

The Export Trade Incentive Scheme applies to:

- Raw-materials and commodities re-exported after having been imported upon payment of duties;
- Raw-materials imported or produced locally to be used in production of export commodities;
- Goods to be used for packing and containing export commodities;
- Imported oil, lubricants and other energy generating substance used by producers which are wholly engaged in manufacturing commodities for export;
- Locally originating or imported raw materials for use in the production of goods which are in turn employed as input to produce commodities for export market.

The duty incentive schemes established includes Duty Draw-Back Scheme, Voucher Scheme and Bonded Manufacturing warehouse.

### **A. Duty-Draw Back Scheme**

Duty Draw-Back means a scheme by which duty paid on raw material used in the production of commodities is refunded upon exportation of the commodity processed and shall include refund of duties paid on goods re-exported in the same condition for being not in conformity with purchase order specifications, damaged, short delivery or not in market demand.

Having calculated the amount of duty payable on each commodity produced locally and exported thereafter, ERCA shall pay the duty to the bank account of the beneficiary, or pay the beneficiary by cheque.

### **B. Voucher Scheme**

A Voucher or Voucher Book is a document printed by the Customs and Revenues Authority, to be used for recording the balance of duty payable on raw materials imported for use in the production of goods for export market.

### **C. Bonded Manufacturing Warehouse Scheme**

In this scheme,

- The customs official and the exporter shall jointly lock the licensed warehouse;
- The Exporter who imports raw materials shall complete transit formalities at the port of arrival and the raw materials shall directly be transferred to the warehouse. All necessary Customs formalities shall be completed at the warehouse;
- The raw material to be used for production must be removed in presence of Customs official;
- The Product shall be registered and transferred to the warehouse and shall be exported after all Customs export formalities have been completed.

Beneficiaries of the bonded Manufacturing Warehouse Scheme are producers wholly engaged in exporting their products who are not eligible to use the Voucher Scheme and who have license that enables them to operate such warehouse.

## **Chapter Three**

### **3. Research Design and Methodology**

#### **3.1. Introduction**

In this section, methodological issues, the nature of data, types and sources of data are presented. Once the data is collected using different collection techniques and instruments, an econometrics model and descriptive way of analysis is used.

#### **3.2. Research approach**

Conceptually research approaches are plans and procedures for research that span the steps from broad assumptions to detailed methods of data collection, analysis and interpretation. This plan involves several decisions and they need not be taken in the order in which they make sense. The overall decisions involve which approach should be used to study a topic. There are three different research approaches: Qualitative research, quantitative research and mixed research approach.

Qualitative research approach is an approach for exploring and understanding the meaning of individuals or group ascribe to social or human problem. The process of research involves emerging questions and procedures, data typically collected in the participant's setting. Data analysis inductively builds from particular to general themes, and the researcher makes interpretations of the meaning of the data.

Quantitative research approach is an approach for testing objective theories by examining the relationship between variables. These variables, in turn, can be measured, typically on instruments, so that numbered data can be analyzed using statistical procedures.

Mixed methods approach is an approach to inquiry involving collecting both qualitative and quantitative data, interpreting the two forms of data and using distinct designs that may involve assumptions and theoretical frameworks. The core assumption of this form of inquiry is that the combination of both qualitative and quantitative approaches provides a more complete understanding of a research problem than either approach alone. That is both qualitative or quantitative approaches have some specific limitations and/or problems. However, if a research employs both approaches at a time, the weakness of one approach will be solved by the strength of the other approach. As a result this study used a mixed method approach using both qualitative and quantitative methods to adequately answer the researcher's proposed research questions.

### **3.3. Research design**

In the previous sections, it has been mentioned that the broader objective of this study is to explore the factors that affect the export performance of textile and garment industries in Ethiopia. In doing so, the study has employed both qualitative and quantitative methods in order to describe the solutions for the observed problems in the sectors. In the same fashion the study is both descriptive and explanatory in the sense that it describes the findings from the primary sourced data and also explains the relationship between variables in an econometrics model.

### **3.4. Sampling design**

#### **3.4.1. Target Population**

The target population included in the investigation of the factors that affects the export performance of textile and garment industry is those companies' active manufacturers and exporters of Textile and garment products to the rest of the world. In doing so, from the list of Ethiopian Textile Industry Development Institute 80 companies are identified that manufactures and export their product to the external economies. (ETDI companies profile, 2017)

### 3.4.2. Sampling Frame

In statistics, a sampling frame is the source material or device from which a sample is drawn. It is a list of all those within a population who can be sampled, and may include individuals, households or institutions. As specified in the above there are 80 companies that are engaged in exporting to external economies and the samples were drawn from these total participants

### 3.4 .3 Sample size

The sample size was determined using the derived formula for assessment of proportions in cross-sectional studies for random sample procedures (Leslie Kish, 1964). The sample was designed to provide a representative number of textile and garment manufacturing companies to participate in the data collection for the qualitative analysis with a sampling error (Level of precision) of +/-10 % and p set to 0.5.

The following assumptions were made:

- A design effect (DEFF) of 1 since simple random sampling will be used at all levels of the survey
- An overall minimum response rate of 95% percent to adjust the sample size for non-response
- A precision of +/-10%

At 95% confidence level, and an error correction of 5 percent for specific estimates

$$n = \frac{\left( \frac{P[1-P]}{\frac{A^2}{Z^2} + \frac{P[1-P]}{N}} \right)}{R}$$

Where: n= the sample size

N = Total Population size

Z = the value from standard normal distribution corresponding to desired confidence level (for example Z = 1.96 for 95% confidence level)

A = Desired precision or acceptable error, 10%

R = estimation of response rate, 95 % (0.95)

p = the estimated proportion of an attribute that is present in the population (p = 0.5)

Having this formula the sample size is calculated as follows,

$$P(1-P) = 0.5(1-0.5) = 0.5 \times 0.5 = \mathbf{0.25}$$

$$A^2 = (0.1)^2 = \mathbf{0.01}$$

$$Z^2 = (1.96)^2 = 3.8416 \quad 0.005728082$$

$$R = 0.95 \text{ and } N = 80$$

Thus, **n = 45**; in order the sample size to be as representative as possible, about 80 Textile and garment industries who actively participate in the exporting business are contacted.

### **3.5. Sources of Data**

#### **3.5.1. Primary source**

Primary data are those which are collected for the first time and are always given in the form of raw materials and original in character. These types of data need the application of statistics methods for the purpose of analysis and interpretation. Accordingly in order to identify the factors that can affect the export performance of textile and garment industry in Ethiopia, a primary data is collected from managing directors, managers, marketing directors working for the selected Textile and Garment firms and other relevant individuals such as Textile Association representatives and middle level Government officials working on the area under the case using different data collection tools including questionnaire and Focused Group Discussions.

### **3.5.2. Secondary source**

In addition to the above mentioned primary source of data, this study has also used secondary data which is also collected from different secondary sources of data including data from documents, books and piece of research works. Besides, a supplementary data is also collected from federal offices like Ministry of Trade, National bank of Ethiopia, Ethiopia revenue and Customs authority, Ministry of Finance and Economic Corporation and others.

### **3.6 . Data collection instrument**

**A. Questionnaire:** conceptually they are ideal for large sample sizes, or when the sample comes from a wide geographic area. Questionnaires must be easily understandable since there is no possibility for respondents to ask how to mark answers or what a question might mean. Accordingly this research used survey questionnaires to collect primary data which are structured using a five-point Likers scale on a number of variables. Data was gathered via self-administered e-mail survey and using the drop and pick technique depending up on the geographical location of the firms under the case. The questioner is annexed

**B. Focused Group Discussion:** A FGD is a group discussion guided by a facilitator, during which group members talk freely and spontaneously about a certain topic. FGD is a research tool in which a small group of people (about ten) engages in a discussion of the selected topic of interest in an informal setting. The group of individuals are expected to have experience or opinion on the topic and selected by the researcher Accordingly, in order to obtain in-depth information on concepts, perceptions and ideas of a group regarding factors affecting the export performance of textile and garment industry, this research has conducted FGD with heads/representatives of Textile Associations, heads and experts from Ethiopian Textile Development Institute, and Ministry of Trade specifically from export promotion directorate general.

### 3.7 Data analysis methods

Those collected data using various instruments are analyzed using two different techniques: econometrics model and descriptive methods. Basically the secondary data analyzed by employing an OLS regression whereas, the primary data is described and narrated in order to investigate the different factors that exporters have been experiencing as a bottleneck during their business. Those data collected using questionnaire and focused group discussion is presented in charts, percentages and other ways of analysis. Lastly, this study is also including qualitative data analysis based on 5-point liker scale ranging from 1 “Strongly Disagree” to 5 “Strongly Agree”. For the data gathered using semi structured questionnaire.

So far, different studies have used different variables as explanatory variables that describe the export performance of countries. Those variables are different from countries to countries and from one model to other models. While some researchers used a time series data, others have employed a cross sectional data to investigate the determinant of export performance as a whole and sector wise. However, this study used FDI, GDP of Ethiopia, Real Effective Exchange Rate, Trade openness, Firm Characteristics and Export Marketing Strategy as explanatory variables and export value as dependent variable.

#### 3.7.1. Econometric Model used

After a thorough review of literatures on the determinants of export performance out of the aforementioned variables the first four have been identified to be included in the model as explanatory variables. Thus, it can be mathematically expressed as follows

$$\text{EXP} = \text{F}[\text{GDP}, \text{REER}, \text{TO}, \text{FDI}]$$

Where,

EXP = the total volume of export

GDP = Gross Domestic Product of Ethiopia

REER = Real Effective Exchange Rate

TO = Trade Openness measure by the ratio of trade to GDP

FDI = Foreign Direct Investment going to the textile and garment industry

Besides, the function can be rewritten as

$$EXP = \beta_0 GDP^{\beta_1} REER^{\beta_2} TO^{\beta_3} FDI^{\beta_4}$$

Furthermore, the above mathematical expression can be transformed into logarithmic form and rewritten in the following way.

$$\text{Log EXP}_t = \beta_0 + \beta_1 \text{LogGDP}_{t-1} + \beta_2 \text{LogREER}_t + \beta_3 \text{LogTO}_t + \beta_4 \text{LogFDI}_{t-1} + \varepsilon_t$$

Where  $\varepsilon_t$  = the error term and  $\beta_1 - \beta_4$  are simply the marginal effects of the explanatory variable on the export performance therefore, the signs of those coefficient really does matters in order to identify the direction of their relationship with the dependent variable.

**Table 3.1 Description and expected signs of explanatory variables.**

Variables	Description	Expected sign
Export-value (Dependent Variable)		
GDP	Higher GDP means higher domestic production which in turn boosts the exporting capacity of a country in general.	+
Real Effective Exchange Rate	Devaluation of the local currency against the currency of the trading partners will lead to an increase in exports to those countries	+
Trade Openness	This is measured as the ratio of trade to GDP and in most economic studies it is considered as a proxy for trade liberalization. Higher economic integration means greater market access for the domestically produced goods.	+
Foreign Direct Investment	Inflow of FDI into specific sector means new technology and/or knowledge will be transferred which potentially increase the exporting capacity.	+

Variables	Description	Expected sign
Firm Characteristics	Internal determinants of Export performance measured in terms of management commitment, firm's resource commitment, the amount of resources the firm has for export development. the international experience of the firm and the extent of planning for the export venture.	
Export Marketing Strategy	Internal determent measured visa -a- vies marketing mix adaptation, overall support given to distributors/subsidiaries in the export market	

### 3.8 Validity and reliability

#### 3.8.1 Validity

A research is said to be valid provided that strong and timely information are collected from the respective stakeholders using the correct collection technique and collection instrument. Data collected at a glance may not be good enough to forward a conclusion and recommendations as well. As a result this study applied triangulation for the purpose of cross checking the data collected and to be used in the investigation of the factors that affects the export performances.

By combining multiple methods, and empirical analysis, researchers can hope to overcome the weakness or biases and problems that are associated with a single method. As a result, this study has used data triangulation, theoretical triangulation and methodological triangulation in order to increase the validity of this research.

Besides, the best way to ensure the quality of data is simply to triangulate the data collection instruments in a way it generates a meaningful and quality data and finally significant conclusions to be drawn.

Generally, triangulation refers to the use of multiple methods or data sources in qualitative research to develop a comprehensive understanding of phenomena (Patton, 1999). Triangulation

also has been viewed as a qualitative research strategy to test validity through the convergence of information from different sources. Denzin (1978) and Patton (1999) identified four types of triangulation: method triangulation, investigator triangulation, theory triangulation, and data source triangulation.

As a result, in this study, the researcher essentially adopted method triangulation and data sources triangulation. Firstly, the collected data is analyzed using different research methods in a particular way that it both qualitative and quantitative methods of analysis is employed. Secondly, the research performed focus group discussion and questionnaire in order to cross check the validity of the data collected from the targeted participants. By doing so, more comprehensive data is obtained. Since having quality data is a prerequisite for decision making and drawing any conclusion, the quality of data is checked before, during and after data collection.

Data triangulation validates the data and study by cross verifying the same information. This triangulation of data strengthens the study because the data has increased credibility and validity.

### **3.8.2 Reliability**

The researcher considered the trustworthiness of this study that attempts to examine the determinants of export performance of textile and garment industry in Ethiopia by avoiding any frauds during the times of data collection as well as during presenting, interpreting and analyzing the collected data as per the responses of respondents. Therefore, in the study there was no room for trimming data and falsifying results.

### **3.9 Research Ethics**

Before proceeding to the collection of data using questionnaire, administered interview and focused group discussion, the participants of all the above mentioned instruments are clearly informed the rationale behind having them on board and once their consent is secured everything was take place. If confidentiality matters for the participants, it secured and identity at an individual level is not be part of it. In addition the researcher conducted the research in a

systematic and participatory way and upkeep from plagiarism through using standard citation and paraphrasing.

## **Chapter Four**

### **4. Data Presentation, Interpretation and Discussion**

#### **4.1. Introduction**

In the following sections the data presentation, interpretation of data and discussion on the result will be presented. This chapter is organized in three broader sections which are:

- I. Performance of the macroeconomic of the country is discussed with trend of economic growth, overall trade performance, export performance of textile and garment sectors are presented.
- II. Presentation of empirical results including the result of OLS regression and discussion on the model is done
- III. Finally, the discussion on the primary data collected using survey questionnaire and focused group discussion is made in order to triangulate the results of different methods of data analysis.

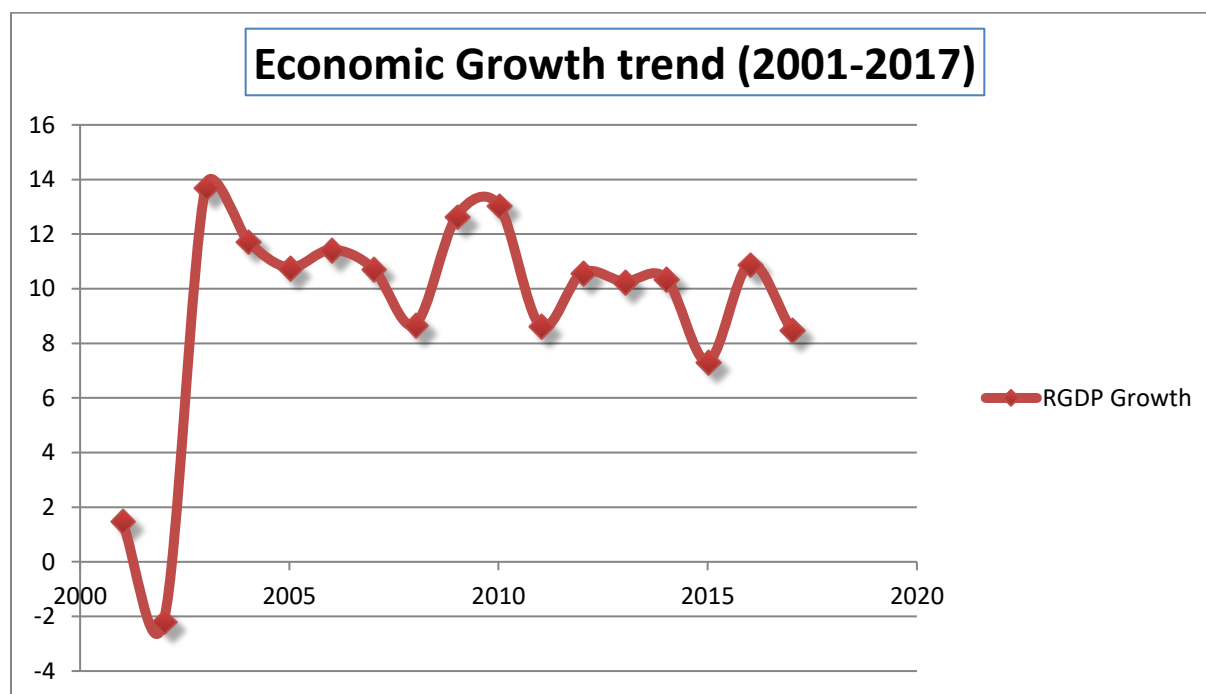
#### **4.2. Macroeconomic Performance of Ethiopia**

The economic growth of Ethiopia has declined from the previous years due to the negative effects of the harsh drought happened in the country and fragile worldwide environment (IMF, 2016). Nevertheless, the decline in the economic growth has weakened or alleviated with an effective implementation of timely policies to tackle the problems associated with drought. This slowdown in the economic growth is simply in comparative to the previous years where the country has consistently registered a positive economic growth and at the same time poverty reducing record for above ten years starting from 2004. The share of service sector to the GDP growth is basically increasing with time while the role of agriculture is being undertaken by the growing service and slightly by industry sectors though it contributes higher share in absolute term. However, being dependent on the weather and traditional tools means it is too challenging to keep the role of agriculture on the economy as consistent as it should be.

Whenever there exists, shortage of rainfall, the productivity of the economy will automatically decline (Willenbockel and eta'al , 2008) and that is why huge amount of Ethiopian people are adversely affected by the drought which in turn results in a fall in the economic growth as of the past two years. Succeeding to the previous long term policies<sup>7</sup> implemented by Ethiopia, the country has currently adopted a five years plan which is GTP-II as a means that paves the way to secure the medium income level in the next ten years.

As it is shown in the below figure, the economy of the country is growing with time with the exception of the beginning of 2000s. In the early periods, the economy growth declines and reaches a negative figure in 2002. These declines in the growth are mostly associated with Ethio-Eritrea war which caused a lot of damages in human life as well as in materials. However, the economy started to grow in an increasing rate and showed a positive growth for the consecutive 15 years.

Fig 4.1: The Trend Of Economic Growth of Ethiopia from 2001-2017 taken from NBE data



<sup>7</sup> 7SDPRP , PASDEP and GTP-I are poverty reduction 5 years programs adopted from 2001/02 to 2004/05, 2005/06 to 2009/10 and 2010/11 to 2014/15 respectively.

#### 4.2.1. Trade Performance of Ethiopia

As it is discussed in the previous section, the degree of openness to the international trade shows how much ones' economy is exposed to international relationship or the degree of integration with the external market. Developing countries exports primary products (agricultural products) for cheap international prices and imports in turn capital goods including machineries, chemicals, automobiles and etc in higher prices which makes their trade balance to be in deficit. The case for Ethiopia is not different from those circumstance where the trade balance of the country is being in deficit for the last indefinite periods.

According to the expenditure approach of measuring GDP if import exceeds the export of one country then the GDP will be deteriorate given other things being constant. However, those deterioration can be counterbalanced and be compensated from the gains resulted from imports.

**Table 4.1: The Trends of Export and Import for Ethiopia from 2011 -2017 in Millions of USD**

Indicators	2011	2012	2013	2014	2015	2016	2017	Average
Economic Growth	8.65	10.58	10.26	10.39	7.34	10.9	8.5	9.52
TOTAL Import	8896.29	11659.26	10955.39	14718.28	16282.65	16408.48	14692.14	13373.21
Growth-Rate	3.42	31.06	-6.04	34.35	10.63	0.77	-10.46	9.10
Total -Export	2614.89	2741.30	2591.04	2977.92	2697.08	2615.93	2862.59	2728.68
Growth-Rate	12.24	4.83	-5.48	14.93	-9.43	-3.01	9.43	3.36
Import-Textile	361.67	443.64	476.56	557.19	659.34	605.05	616.47	531.42
Growth-Rate	3.55	22.66	7.42	16.92	18.33	-8.23	1.89	8.93
Export-Textile	73.65	67.41	89.06	82.49	98.67	77.02	99.43	83.96
Growth-Rate	71.24	-8.47	32.11	-7.37	19.61	-21.94	29.10	16.33
Trade Balance-Total	-6281.40	-8917.96	-8364.34	-11740.36	-13585.57	-13792.55	-11829.55	-10644.53
Trade Balance-Textile	-288.02	-376.22	-387.50	-474.70	-560.67	-528.03	-517.04	-447.45

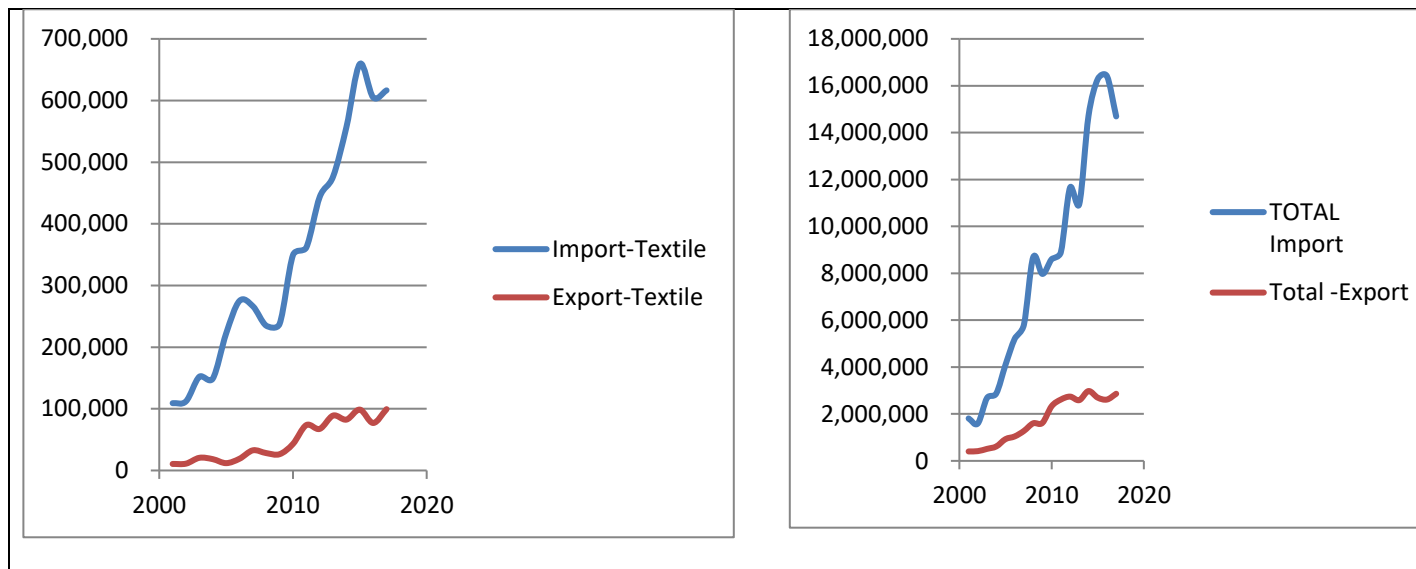
Source: author computation using NBE & ITC Data

As we can observe from the table above, the industry is currently growing rapidly. Exports have increased substantially over the past ten years. According to the data extracted from UNCTAD-ITC database, the annual average growth rate of export in the sector is above 16 percent there exists fluctuations in some years. As it is presented in the GTP-II document, the Ethiopian government has set the sector as a focus for the Growth and Transformation Plan II (2015-2020), aiming to boost exports to reach one billion USD by the end of the Plan period, and to create close to 350,000 jobs.

The general trade balance of the country and trade balance of the specific sector revealed that the gap between exports and imports expanding and the net export of the country is deficit in both cases. Both import and export of the country are increasing, however the speed at which import increase is faster than the rate of increment in export. As a result the current account is becoming more deteriorated with time. For instance, based on the data for the years 2011-2017, the growth rate of import is estimated to be above 9 percent while the growth rate of export is about 3.4 percent annually.

Ethiopia's textiles and clothing industry is undergoing major development, aided by the presence of a cheap, skilled and highly-motivated workforce. This surge has been helped by the country's impressive economic growth over the past years. Ethiopia's enormous export potential is made possible by the wide availability of raw cotton and other natural fibers and Ethiopia's access to domestic, regional and international markets.

**Figure 4.2: Trade Balance for Textile sector and the general trade**



#### 4.2.2. Export Performance of textile and Garment Sector

Among the conducive environment within Ethiopia that are essential ingredients for a competitive textile industry includes raw materials, low wages and low energy costs. This gives the country a comparative advantage over other countries and regions. The Ethiopian Government is actively promoting the further modernization of the textile sector with the aim of attracting foreign investors that can penetrate the global market.

In recent years, due to various opportunities, the global market has become increasingly accessible to countries such as Ethiopia. New export opportunities were created through initiatives such as AGOA (the African Growth and Opportunity Act), COMESA (the Common Market of Eastern and Southern Africa) and the many bilateral trade agreements concluded with Western countries, including the Netherlands, Belgium and Luxembourg. Ethiopia is also part of the “Everything But Arms” program that has been set up to provide access to the E.U. market for Lesser Developed Beneficiary Countries, free of duty and without quota restrictions, for all export products except arms.

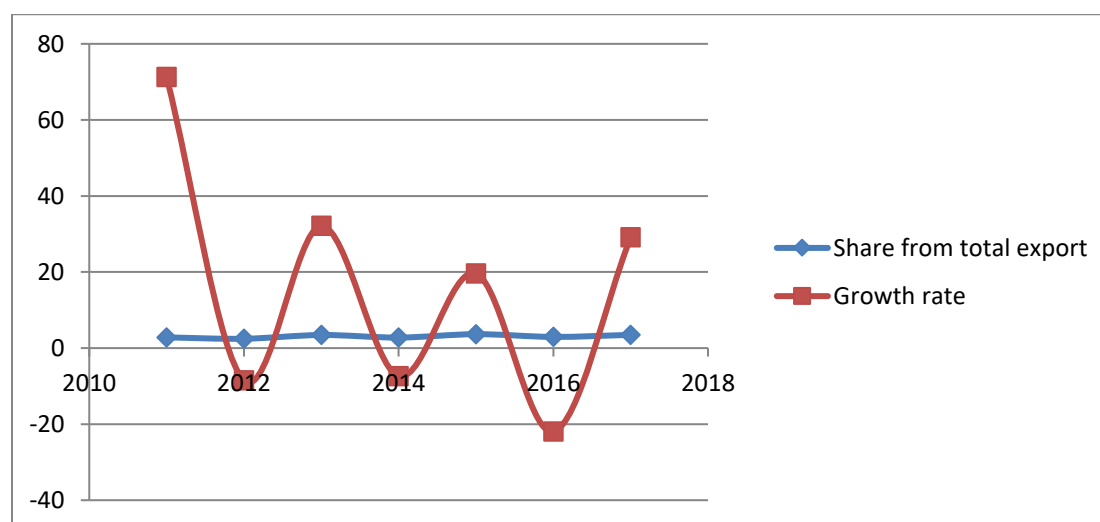
**Table 4.2 : share of textile export to the total export of Ethiopia (000 USD)**

Variables	Export in 2011	Export in 2012	Export in 2013	Export in 2014	Export in 2015	Export in 2016	Export in 2017
Total-Export	2,614,892	2,741,298	2,591,042	2,977,916	2,697,080	2,615,931	2,862,593
Textile-Export	73,650	67,411	89,057	82,493	98,673	77,022	99,434
Share of total export	2.82	2.46	3.44	2.77	3.66	2.94	3.47
Growth rate	71.24	-8.47	32.11	-7.37	19.61	-21.94	29.10

Source: Author Computation using the data from ITC

The figure below revealed that the growth rate of textile export has been experiencing fluctuations in between the years 2011-2017. As the main raw material of the sector is raw cotton which highly depends on the rainfall, as the amount of cotton produced is decreased, it adversely affects the export volume of textile and garment. Similarly, the number of active exporters may vary from year to year as new exporters may join the market and existing exporters may exit from the market. As a result the quantity of textile exported to the rest of the world has shown an increasing and decreasing trends in the years under the consideration.

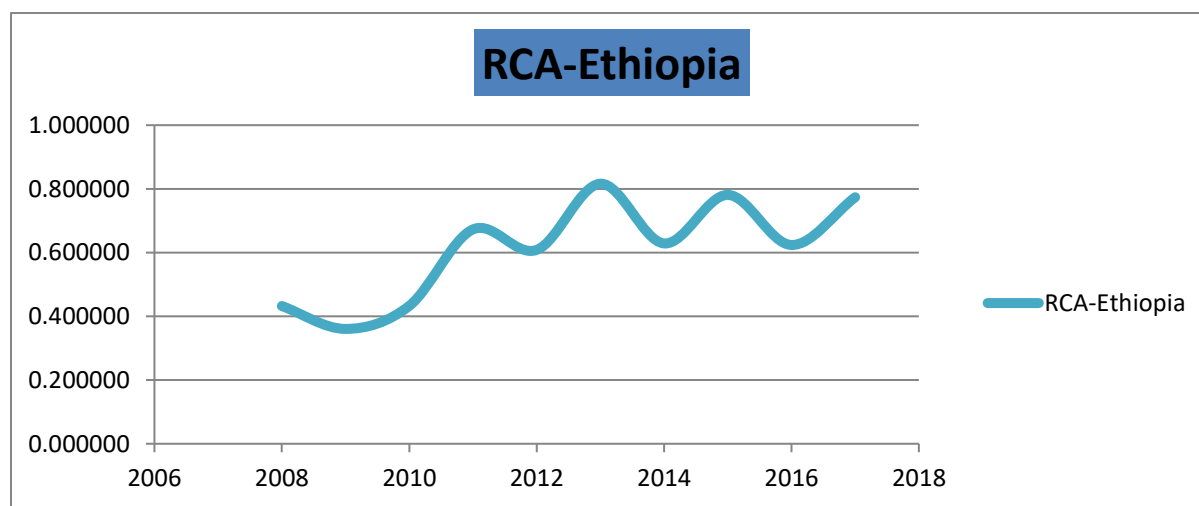
**Figure4.3: the share of textile export to the total export from 2011-2017**



### 4.2.3. Competitiveness of Textile and Garment sectors.

Though the government is now working towards the development of cotton, textile and garment sector as a priority within the planned industrial development, the sector is less competitive in the international market. As it is shown in the graph below or table annexed at the end, the RCA index of the sectors shows that Ethiopia has been enjoying a comparative disadvantage in the international market. According to Balassa RCA index analysis, an index greater than one shows comparative advantage and an index less than one indicates a comparative disadvantage of the product in the international market. It is been discussed that the sector has huge potential and provided that the government puts great emphasis on the textile and garment, it can create substantial sources of employment and sources for significant foreign export earnings. The Government has underlined its commitment to develop this industry and aspires to export more of the sector to the rest of the world. In response to government's policies, investors from different countries and major global brands are now investing in the country or are opening branches in the country.

**Figure 4.4: Export Competitiveness of Textile and garment sector using RCA Analysis**



Complement to the above, there are various areas that the government of Ethiopia should emphasis which are important for creating the backbone of a strong textile and garment industry and making the sector as competitive as possible. Those areas are investment in the implementation of social and environmental standards across value chains, strengthening skill

development for qualified personnel and promoting local and sustainable cotton production. Sustainability, the said, was an issue that needs to be considered in the whole textile value chain from field to fashion.

**Table4.3: Major market Destination for the all product exported by Ethiopia (000 USD)**

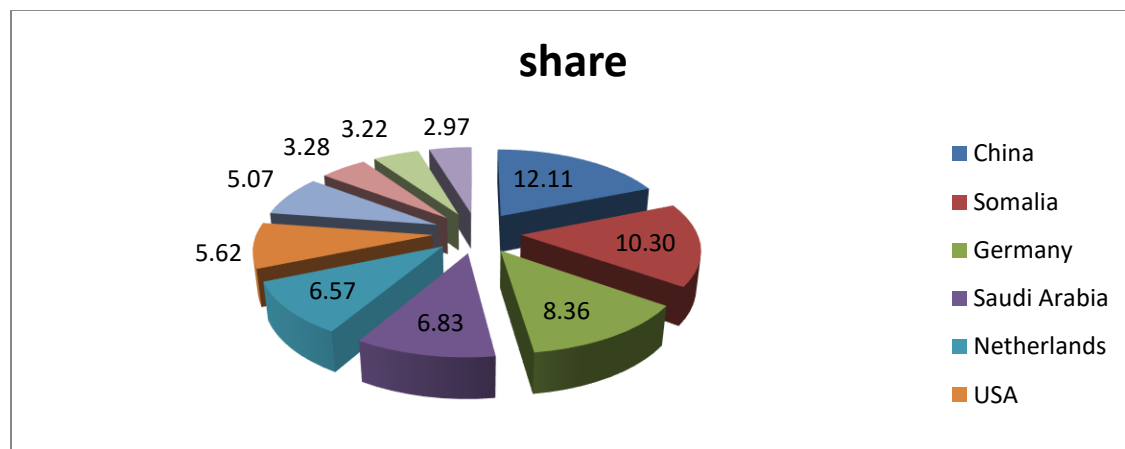
No.	Importers	Total	Share, Percent
1.	China	2,312,269	12.11
2.	Somalia	1,967,997	10.30
3.	Germany	1,596,559	8.36
4.	Saudi Arabia	1,304,127	6.83
5.	Netherlands	1,254,862	6.57
6.	USA	1,073,433	5.62
7.	Switzerland	968,434	5.07
8.	UAE	625,756	3.28
9.	Djibouti	615,777	3.22
10.	Israel	567,072	2.97

**Source: Author computation using data from UNCTAD-ITC database**

According to the data dig out from ITC data base for the years 2011-2017, for the total of all products exported by Ethiopia, the lion share of those products goes to china which accounts about 12.11 percent of the total export. Furthermore, large number of the export of Ethiopian product is being destined in Somalia and Germany with 10.30 percent and 8.36 percent respectively.

The top five destination of Ethiopian products (China, Somalia, Germany, Saudi Arabia and Netherlands) accounts for about 45 percent of the total export. Whereas the top ten destination makes about 65 percent of the total export. This shows us that the export destinations are very few in number and the market access to the products exported by the country need to be diversified and increased as far as possible. This can be done by increasing the trade relation and negotiation strategy of the country bilaterally and multilaterally with external economies.

**Figure 4.5: Top Market destination for all products exported by Ethiopia**



More specifically, the following table shows us the top market destinations of textile and garment sector exports of the country and according to the computation, nearly half the total textile export goes to Germany. It accounts above 40 percent of the total export followed by Turkey, USA and Italy with 20 percent, 11.14 percent and 7 percent respectively. 60 percent of the total textile exports go to Germany and Turkey.

Similarly, according to the data of the years 2011-2017, the export partners of the country are commonly known. Therefore, the government of the country should work to promote the export of its product in all over the world.

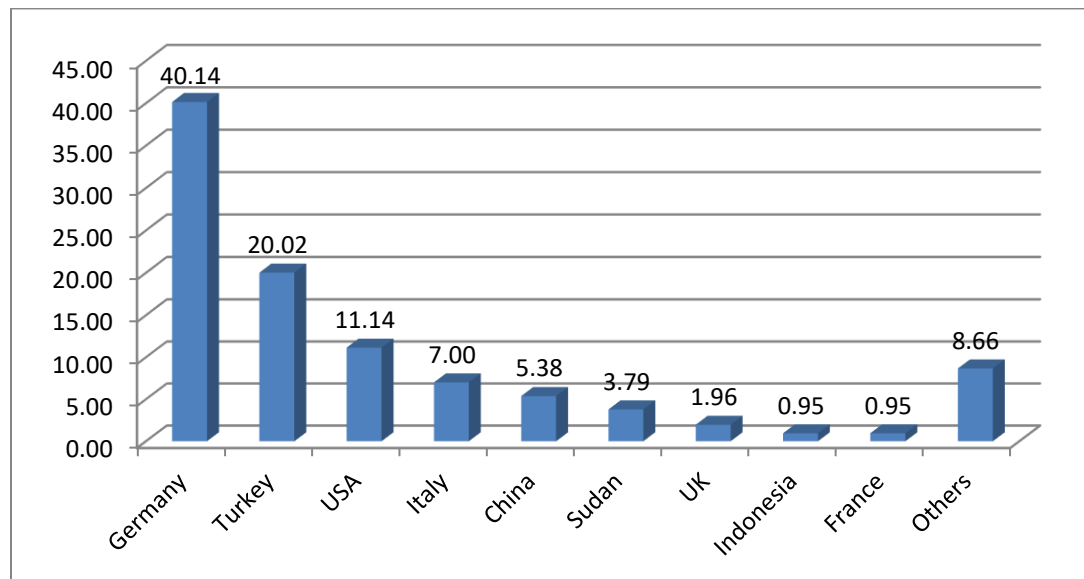
**Table4.4: Top market Destinations of Textile and Garment Exported by Ethiopia (2010-2017)**

	List of Importers	Total (000 USD) imported	Share (percent) of total export
1	Germany	253212	40.14
2	Turkey	126274	20.02
3	USA	70295	11.14
4	Italy	44183	7.00
5	China	33914	5.38
6	Sudan	23916	3.79
7	UK	12380	1.96
8	Indonesia	5967	0.95
9	France	5965	0.95
10	Others	54643	8.66
	World	630749	100

Source: Author computation

More than 90 percent of the sector is exported to about nine countries while less than nine percent was exported to the rest of the countries. With such huge potential on the sector and textile industry among those sectors prioritized by the government in the second GTP, the government should also work with securing wider market destinations.

**Figure 4.6: Top market Destinations of Textile and Garment Exported by Ethiopia**



### 4.3. Empirical Analysis Results and Discussion

#### 4.3.1. Statistical Summary of Variables

As part of the empirical analysis, descriptive statistical summary is carried out before proceeding into to the main econometrics analysis which is an OLS regression. As it is shown in the table below, the mean, median, minimum, maximum, Skewness, standard deviation and other parameters are summarized for the variables included in the specified model of factors affecting the export performance of textile and garment sector. According to the table, the average share of trade to GDP for the previous years (1991-2017) was 37.68 percent with minimum and maximum value of 12.24 percent and 51.06 percent respectively.

With the same fashion, the average economic growth rate of Ethiopia is found to be about 7.66 percent for the period of time under consideration with the higher achievement of 13.7 percent and lower economic fall rate of negative 3.70 percent. See the following table for the detail.

**Table 4.5: Summary Statistics, using the observations 2001 – 2017**

Variable	Mean	Median	Minimum	Maximum
FDI	521.294	262.891	0.170000	2985.80
TO	37.6783	39.6310	12.2418	51.0565
EXPTEX	29982.7	15123.5	1798.44	98673.0
REER	138.665	121.155	93.5781	284.759
RGDPGROWTH	7.66090	9.47627	-3.69008	13.7274
Variable	Std. Dev.	C.V.	Skewness	Ex. kurtosis
FDI	765.293	1.46806	2.08211	3.28750
TO	9.19683	0.244088	-0.830555	0.676223
EXPTEX	30628.1	1.02153	1.08848	-0.352210
REER	47.0948	0.339631	1.43177	1.80702
RGDPGROWTH	4.93570	0.644272	-0.940822	-0.205819
Variable	5% Perc.	95% Perc.	IQ range	Missing obs.
FDI	1.33550	2699.43	487.172	0
TO	15.0826	50.9893	12.4572	0
EXPTEX	2471.89	95307.4	40565.3	0
REER	93.7426	266.064	68.9365	0
RGDPGROWTH	-3.15677	13.4973	5.90681	0

Source: author calculation using GRETL

#### 4.3.2. Stationarity Test

Before running the OLS regression on the determinants, all the variables included in the model need to be checked for their stationarity. In most cases, economic variables are non-stationary at their level. However, in few circumstances, those time series data set can be stationary if a growth is being used. According to A.H. Studenmund (2014), any time series whose its mean and variance do not change with time is stationary series. That is if both mean and variance are not varying over-time and if the correlation coefficient of a variables and their lagged variables depends on the lag lengths, then the time series are said to be stationary time series. Otherwise, if either of the above properties is violated, that is, if either mean and variance changes with time then the series is non-stationary. If a non-stationary variable is being regressed on another non-

stationary dependent variable, the result will lead us to a spurious regression (M. Verbeek, 2004) where inferences based on such regression are confusing and estimators are false estimators.

In order to know whether the variables included in our model are stationary or non-stationary and to make sure that the regression result we obtained is not spurious, it is recommendable to use a non-stationary test which commonly are called Unit root test as it is indicated in A.H. Studenmund (2014). Henceforth, after having all variables included in the specified model being stationary, the problem of spurious regression will not be our stress. Traditionally, sketching a time series plot of variables<sup>8</sup> can be used to identify if it is stationary or non-stationary by simply having a look if it is trending up, trending down or not. However, the most commonly used non-stationary tests includes DF-test, ADF-test, PP tests, KPSS test and others where the former test is being used in this study which postulate there is unit root against the alternative hypothesis of the null-hypothesis is not true.

Having said this, the researcher has used ADF –test to check the stationarity of the variables and as a result, all the variables are found non-stationary at their level after transformed into logarithmic form. Therefore regressing the non-stationary variables on a non-stationary variables will not help us to investigate the determinants of export performance. Differencing the variables is the remedy to convert them in to stationary data. Variables should be continuously differenced until they are found to be stationary. In line with this, all the variables have become stationary after differencing them once. The following table presents the detailed ADF test of stationarity.

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<sup>8</sup> See annex for the time series plot of the variables.

**Table 4.6: ADF Test for Stationarity test of the variables**

ADF-Test	LogEXPTEXT		LogTO		LogREER		LogGDP		LogFDI	
	Level	1 <sup>st</sup> difference	Level	1 <sup>st</sup> difference	Level	1 <sup>st</sup> difference	Level	1 <sup>st</sup> difference	Level	1 <sup>st</sup> difference
Without constant	0.9987	0.0781*	0.6565	0.0000***	0.5479	0.0002***	0.9837	0.0737*	0.9018	0.0000***
With constant	0.8363	0.0000***	0.2881	0.0014***	0.3027	0.0035***	0.9998	0.0261**	0.4953	0.0000***
With constant & trend	0.09024	0.0000***	0.9961	0.0006***	0.530	0.0027***	0.9999	0.0000***	0.2265	0.0000***

Source: Author calculation using GRETL software

\*\*\*, \*\* and \* represents level of significance at 1%, 5% and 10% respectively

### 4.3.3. OLS Regression Result

The following table is the result of the OLS regression and according to the result, all of the signs of the variables are as of the expectation by the researcher. In order to capture the impact of the variables specified for this model, the study has rather considered the economic growth (measured by RGDP) and foreign direct investment of the previous year instead of the same year. Other variables like real effective exchange rate, trade openness (measured by the share of trade to GDP) export level are taken for the same year. The mathematical representation of the model is therefore represented as follows.

$$\text{LogEXPTEXT}_t = 3.384 + 2.987\text{Log GDP}_{t-1} - 2.858\text{LogTO}_t + 0.824\text{LogREER}_t + 0.289\text{LogFDI}_{t-1}$$

(1.357)      (1.356)                      (1.188)                      (0.319)                      (1.756)

N=27

$R^2 = 77.6$  percent

Adjusted  $R^2 = 69.4$  percent

OLS, using observations 1991-2017 (T = 27)  
 Dependent variable: LogEXPTEX

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
Intercept	3.3839	1.3574	2.4929	0.0299	**
LogGDP <sub>t-1</sub>	2.98723	1.35665	2.2019	0.0499	**
LogTO	-2.85778	1.18806	-2.4054	0.0349	**
LogREER	0.82398	0.318872	2.5840	0.0254	**
LogFDI <sub>t-1</sub>	0.289243	0.164709	1.7561	0.01068	**

Mean dependent var	10.56805	S.D. dependent var	0.771988
Sum squared resid	2.003608	S.E. of regression	0.426786
R-squared	0.775870	Adjusted R-squared	0.694368
F(4, 11)	9.519651	P-value(F)	0.001410
Log-likelihood	-6.081904	Akaike criterion	22.16381
Schwarz criterion	26.02675	Hannan-Quinn	22.36162
Rho	0.342728	Durbin-Watson	1.118999

The diagnosis tests have also ensured that the model is healthy and the regressors have explained the dependent variable significantly. The study comes with different procedural tests performed that Autocorrelation using Durbin-Watson (the null hypothesis there is autocorrelation is tested against the alternative hypothesis and the test indicated that there is no such problem).

It is also tested for the Heteroskedasticity using White tests and Multicollinearity is checked using VIF, Outlier using CUMSUM. Generally speaking, it is evidenced that the model specification followed in the study do not exhibit any statistically problem and as a result this can be taken as a good representation of the variables. (See the outcome of those diagnosis tests in the annex)

To conclude, the goodness of the fit (R-squared and Adjusted R<sup>2</sup>) of the model are elaborating a considerable relationship of the variables. About 77.6 percent (using R-squared) and about 69.4 percent (using Adjusted R<sup>2</sup>) of variations in the export performance of textile and garment sector is described by the variations in the independent variables GDP, REER, FDI and TO that are included of the model. The Durbin-Watson statistic is also showing that error terms are not serially correlated.

According to the above model, last year amount of FDI coming from the external economies and the previous year's economic growth have a positive effect on the export performance of textile and garment industry and this effect is statistically significant at 10 percent and 5 percent respectively. This study has considered the previous year's level of FDI and GDP growth for the fact that there will be delays in the impacts. It needs rather a time gap to identify its impact on the export performance. A 1 percent increase in the previous year's FDI and GDP level is causing 0.29 percent and 2.99 percent increase in the export performance in the sector. As a result the formulated hypothesis on the relationship between export level and GDP as well as the relationship between export level and FDI are accepted. That is:

H1: Gross Domestic Product has a positive impact on export performance

H3: Foreign Direct Investment has a positive impact on export performance

However, the hypothesis formulated on the relationship between export level and trade openness are rejected for the fact that this model revealed that the relationship between the two variables is negative while the researcher hypothesize that there will be positive relationship between them.

H4: There is positive relationship between trade openness and export performance

Various conclusions are forwarded regarding the impact of trade openness on economic growth in general and export performance of countries. The "Infant industry argument" is among the strong argument against trade liberalization impacts in developing countries where industries are too young and incapable to resist the competition from multinational corporations. International trade evolves in favor of large emerging countries, they quickly penetrate the world market and specialize in high-sophisticated products. Furthermore, emerging countries have expanding their exports much faster than the leading developed countries. This model has also revealed that trade openness has a negative impact on the export performance of the sector and this impact is statistically significant. A 1 percent change (increase/decrease) in the trade openness will cause a 2.86 percent change(decrease/increase) in the export performance of the sector.

Finally, the impact of Real Effective Exchange Rate on the export performance is as of the expectation and the formulated hypothesis is accepted. From theory perspective, a deliberately devaluation in the domestic currency of a country tends to encourage exporters to send their product abroad. This finding is also in line with those economic theories. A 1 percent increase in the REER will cause a 0.824 percent increase in the export performance.

H2: There is a positive relationship between Real Effective Exchange Rate and export performance.

#### **4.4. Discussion on the Qualitative Data**

As it is discussed in the methodology section, the research paper is mainly depends on the quantitative method of data analysis which is OLS regression to examine the factors affecting of the export performance of textile and garment sectors in Ethiopia. Furthermore, a qualitative data is also collected using questionnaire and Focused Group Discussions (FGDs). The main findings of those instruments are discussed below.

##### **4.4.1. Survey Questionnaire**

For the qualitative data, the researcher has used the export performance of textile and garment companies who was active in the exporting business in 2017 G.C and then conclusion will be forwarded to other period of times, provided that all other factors are remaining the same. As a result, according to different relevant authorities (ETIDI EIC, MoT, ERCA, ETGMA, the researcher has found that the exact number of companies who are engaged in the manufacturing of textile and garment are 32 firms and 49 firms respectively. However, of those total firms only 15 firms are active in exporting textile and 32 firms in exporting garment products to the rest of the world.

In order to get relevant and full data, the researcher has put the maximum effort to collect from all key personnel of those exporters and distributed finalized questionnaire to the top management level of each firms through email and drop and pick method. Though the researcher

has disseminated to get all the distributed questionnaires completed, there was some unresolved challenges. Finally the researcher has collected a total of 39 questionnaires (12 textile sector and 27 garment sector) completed by the key personnel of the firms. However, of those returned questionnaire, one questionnaire was not complete and most of the questions were skipped and the researcher has decided to exclude it in the analysis. To sum up the return rate of this data collection tool is then estimated to be 81 percent which is more than enough to analysis the collected data and forward some inferences based on it.

#### **4.4.1.1. Demographic Information of Respondents**

This questionnaire was mainly disseminated purposively to those who the researcher considered them resourceful and knowledgeable about the challenges and problems faced by the textile and garment industry in their exporting performance. As a result, the top managing professionals are deliberately selected and requested to participate in the survey on the factors affecting the export performance of textile and garment industry.

More specific to the research, 8 Managing Director, 17 General Managers, 10 Marketing Manager and 3 Production Manager have returned the distributed questionnaire with a very relevant information to be used as an input for the analysis. The following table summarizes the general background of the respondents including their number of working experience, educational level and the like.

**Table 4.7: Demographic Information (respondents' characteristics)**

Variables/indicators		Textile	Garment	Total	
		Frequency	Frequency	Frequency	Percentage
Position held	Managing Director	2	6	8	21.1%
	General Manager	6	11	17	44.7%
	Marketing Manager	3	7	10	26.3%
	Production Manager	1	2	3	7.9%
	<b>Total</b>	<b>12</b>	<b>26</b>	<b>38</b>	<b>100%</b>
Education	Diploma or below	6	-	6	15.8%
	BA/BSc Degree	4	21	25	65.8%
	Master Degree or above	2	5	7	18.4%
	<b>Total</b>	<b>12</b>	<b>26</b>	<b>38</b>	<b>100%</b>
Work Experience	Below 5 years	1	8	9	23.7%
	6-10 years	4	13	17	44.7%
	Above 10 years	7	5	12	31.6%
	<b>Total</b>	<b>12</b>	<b>26</b>	<b>38</b>	<b>100%</b>
Gender	Male	10	25	35	92.1%
	Female	2	1	3	7.9%
	<b>Total</b>	<b>12</b>	<b>26</b>	<b>38</b>	<b>100%</b>
	30-39	-	5	5	13.2%
	40-49	3	14	17	44.7%
	Above 50	9	7	16	42.1%
	<b>Total</b>	<b>12</b>	<b>26</b>	<b>38</b>	<b>100%</b>
Nationality	Ethiopian	7	8	15	39.5%
	Foreigner	5	18	23	60.5%
	<b>Total</b>	<b>12</b>	<b>26</b>	<b>38</b>	<b>100%</b>

**Source: Author Analysis using the information from respondents**

Having collected a total of 38 fully completed questionnaires from the selected textile and garment sectors, the researcher has found that about 44.7 percent of the respondents are the General managers of the company, followed by marketing managers and Managing Director with 26.3 percent and 21.1 percent respectively. The remaining 7.9 percent production managers which show that the participants are one in another way involved in the exporting activities of the company. The information they gave for the researcher is reliable and valid for the analysis and draw conclusions.

With the same fashion, referring at their educational level and number of years they involved in the same responsibility, the researcher has concluded that they are very much involved individuals with ample knowledge on the overall exporting endeavor of the country in general and their company in specific. For instance, it is found that 65.8 percent of the respondents are first degree holders and about 18.4 percent are second degree holders which implies more than 84 percent of the participants are degree and above holders. Only 15.8 Percent are found to be diploma holders. Generally speaking, the more they are educated and the more they are experienced on the sector, the better they will perform in their responsibility. Complement to this above 76 percent of the respondent have a working experience of 6 years and above (44.7 percent 6-10 years and 31.6 percent respondent above 10 years' experience).

Most of the respondents are actually not Ethiopians by citizen as more than fifty percent of the companies are foreigners for both textile and garment sector in Ethiopia. Respondents from Ethiopia and foreigners have been part of the survey which increases the flavor of knowledge and experiences.

#### 4.4.1.2. External Factors affecting Export performance

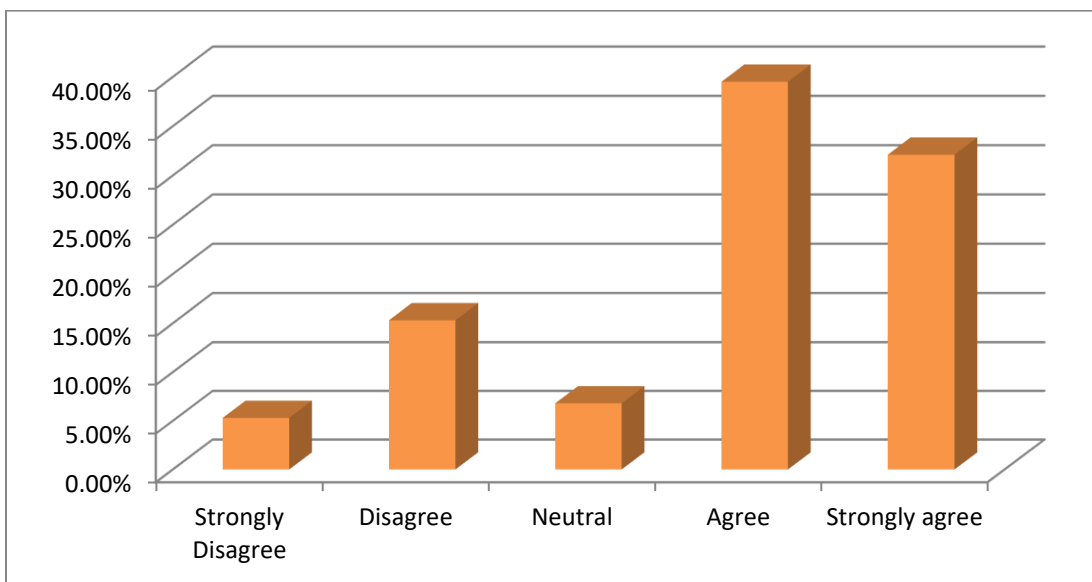
**Table 4.8: External Factors affecting Export performance of the sector**

	External Factors (macroeconomic Phenomena)	SD	D	N	A	SA	Total
A	The <b>Devaluation</b> of birr made by the monetary policy is an encouraging factor for export.	1	4	1	18	14	38
B	<b>Foreign direct investment</b> (FDI) has an adverse impact on our exporting company?	3	7	2	15	11	38
C	Macroeconomic policy in general is not predictable.		6	5	17	10	38
D	I believe that our exporting capacity is increasing with the sustainable and consistent <b>economic growth</b> Ethiopia is experiencing.	3	5	1	16	13	38
E	If Ethiopia economy is <b>opened to external</b> world, our export will be adversely affected.	3	7	4	9	13	38
Percent		5.3%	15.3%	6.8%	39.5%	32.1%	100

**Source: Author Analysis using the information from respondents**

Recalling back to the model specification in the chapter three, the regressors were FDI, Trade openness, GDP and Real Effective Exchange Rate that the researcher considers to examine the factors that affects the exporting performance of the textile and garment sector. As a complement and supplementary way of analysis, this specific question is aimed at collecting the personal views of the specialists on the variables as an external factors hindering their exporting activities.

According to the respondents, most of them agreed that the factors identified on the first column have been affecting *positively and adversely* their performance in the last years. For instance: the continuous devaluation of domestic currency in terms of foreign currency (usually USD) creates an encouraging environment/motive for the exporters to take their product abroad. In the previous years, most of the exporters are also engaged in importing business as a result the dollar earned by exporting their product is used to import products from the rest of the world.



**Source: Author Analysis using the information from respondents**

About 71.6 percent of the respondents have agreed that their exporting capacity/performance have been affected by the macroeconomic phenomena identified by the researcher directly or indirectly. Most of them has indicated that trade liberalization is simply a threat for them due to the fact that they feared the potential competition from the foreign companies. The same holds true for the foreign direct investment, if foreign investors came to invest in Ethiopia in

the specific sector, then their futurity is full of competitions. Few of those individuals have also indicated that they are already facing this problem due to the foreign companies established in the country.

The researcher however believes that competition from foreign companies which are established in the country will have a positive impact on the overall economic performance of the country. Customers in general will be better-off for the fact that they can get better quality products at reasonable price which the competition creates it.

Finally, the respondent has indicated that the macroeconomic policy of the country are not predictable and their unpredictability is making doing business in the country difficult.

#### **4.4.1.3. Internal factors affecting export performance**

After reviewing different literatures, the researcher has developed this question related to the internal factors that potentially can affect the export performance of companies with two different sub-categories. One related to the *firm characteristics* and the other regarding the *export marketing strategy*. See the detailed of the discussion on those two different sub-questions below.

The research has identified the financial capacity, human resource deployed to export, skill and capability to handle new technology, marketing knowledge of staff, expenditure on R&D, foreign trade exposure/international experience and others as the main internal factors/firms characteristics that affects the export performance of the companies. Accordingly, majority of the respondent from textile and garment industries have agreed that those internal factors has directly and indirectly affecting their performance.

**Table 4.9: Internal factors affecting export performance**

Internal Factors Affecting Export Performance		SD	D	N	A	SA	Total
	<b>Firm Characteristic</b>						
A	Of the total financial capacity, the proportion of financial resources allocated to the export activity is substantial.	7	12	3	9	7	38
B	Of the total, the amount of human resource deployed to the export activity is satisfactory	8	9	1	15	5	38
C	There is a lack of skills and capability to handle new technology	6	11	-	13	8	38
D	Your firm considers export marketing knowledge as very important in the organization development	-	3	2	21	12	38
E	The level of expenditure on R& D for the export activity is considerable compared to the firms overall Rand D expenditure	9	17	4	5	3	38
F	The firm's management is more engaging towards the export activities	-	2	-	31	5	38
G	The management has foreign trade exposure or international experience	-	-	-	21	17	38
H	The level of planning involved concerning the export activity is significant	5	11	5	13	4	38
Percent		11.5%	21.4%	4.9%	42.1%	20.1%	100%

**Source: Author Analysis using the information from respondents**

About 62.2 percent of the respondents from both sectors, have indicated their agreement with above mentioned internal factors related to firm characteristics have been affecting positively or negatively their export performance. In contrast to this about 33 percent have indicated their disagreement and 5 percent of the respondents preferred to be neutral which the researcher believes the reasons for being neutral can be associated with their misunderstanding of the listed factors and/or openness to explain the circumstance in their company.

Specifically, 100 percent of the respondents have agreed that their company has foreign trade exposure or international experience. This coincides with the premises of the research that it

deliberately selected those textile and garment companies that are active in the export business. In contrast to this, above 68 percent of the respondents have indicated that The level of expenditure on R& D for the export activity is not considerable compared to the firms overall R&D expenditure.

**Table 4.10: Internal factors affecting export performance**

Internal Factors Affecting Export Performance		SD	D	N	A	SA	Total
Export Marketing Strategy							
A	Degree of product adaptation for market entry is substantial	-	4	8	14	10	38
B	Your company is considering local market condition in determining price	2	7	5	15	9	38
C	Your prices is very competitive on the international market	4	6	3	19	6	38
D	Degree of adaptation of your promotional strategy for the export market is considerable	-	-	-	27	11	38
E	Your firm has been undertaking an intensive promotion in overseas markets	5	7	12	8	6	38
F	Your firm has been using foreign market distribution channels effectively	4	12	9	10	3	38
G	The overall support given to your distributors/subsidiaries in the export market is substantial.	3	17	3	11	4	38
H	The amount of training given to the sales force of your distributors/subsidiaries is significant	13	16	2	5	2	38
Percent		10.2%	22.7%	13.8%	35.9%	16.8%	100%

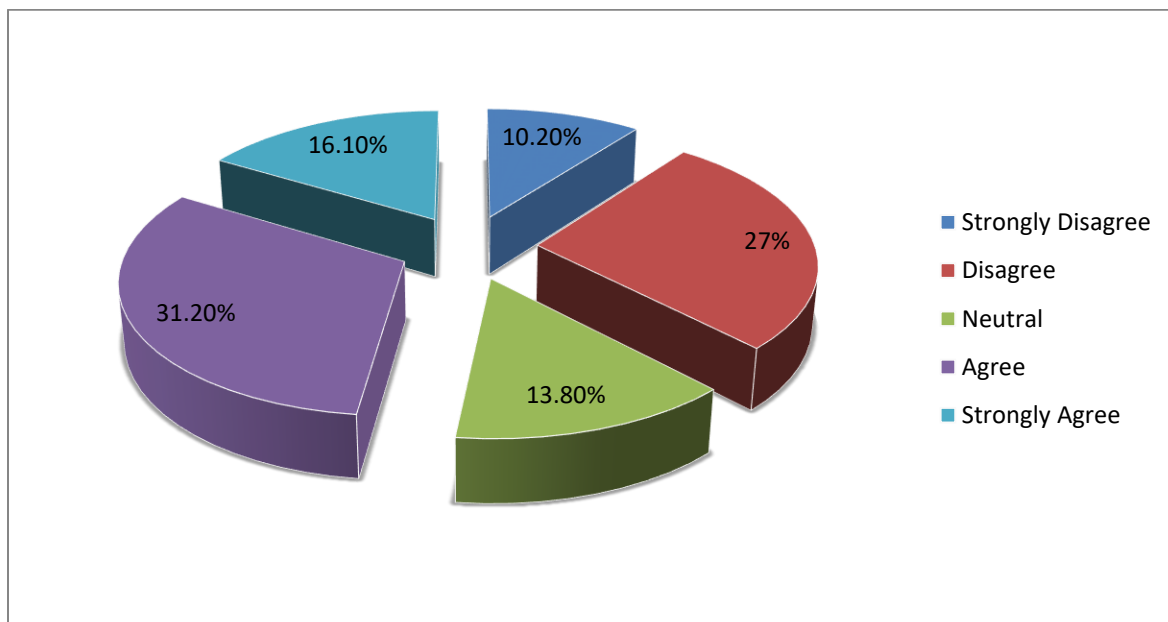
**Source: Author Analysis using the information from respondents**

The other category of internal factor that can potentially affect the export performance of companies is related with the export marketing strategy that captures the pricing strategy of firms within it. Degree of product adaptation for market, considering local market condition in determining price, price competitiveness in international markets, using foreign market

distribution channel, training to distributors/subsidiaries, undertaking intensive promotion and others are among the internal factors listed marketing strategy of firms.

According to the responses of the participants, most of them (52.7 percent) have agreed that those factors identified in relation to the marketing strategy are affecting the export performance. Whereas, about 33 percent has disagreed with those variables.

In contrast to the above conclusion, the respondent has explained that the amount of training given to the sales force of your distributors/subsidiaries is not significant (76.3 percent) and the overall support given to your distributors/subsidiaries in the export market is not substantial(52.6 percent).



Source: Author Analysis using the information from respondents

**Table 4.11: External factors**

<i>No</i>	<b>Factors to be ranked<sup>9</sup></b>	<i>Order (Frequency)</i>				<i>Total</i>
		<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	
<i>1</i>	The Devaluation of birr made by the monetary policy (Exchange Rate)	10	14	9	5	<b>38</b>
<i>2</i>	The inflow of Foreign Direct Investment (FDI)	12	6	4	16	<b>38</b>
<i>3</i>	Economic growth Ethiopia is experiencing.(GDP growth)	5	7	11	15	<b>38</b>
<i>4</i>	Market Opens/ liberalization	11	12	13	2	<b>38</b>

**Source: Author Analysis using the information from respondents**

The above table shows the rank the respondent ordered those external factors that they consider is the most important factor affecting the export performance of the firms. Accordingly, the research has found that the devaluation policy that the monetary body of the country made deliberately is one in another way affecting their performance. From theory perspective, whenever, a country domestic currency is devaluated against foreign currency, exporters will be motivated/encouraged to export. This is due to the fact that when their product is sold at some specific amount of dollar, it will exchange for larger amount of the domestic currency. In contrast to these importers will be discouraged to import as they are supposed to pay more money to import from the external countries.

The reality in Ethiopia is that most of the exporters are also engaged in importing business, thus the dollar they earned by exporting will be used for importing purpose. Those firms usually import many products to be used during the production of the textile and garment.

<sup>9</sup> level of severity in affecting your export performance, (1) being the most severe and (4) the least severe.

#### **4.4.2. Focused Group Discussion**

As a means of triangulating the findings on the factors affecting the export performance of textile and garment sector industry, this research has also used focused group discussion as an additional data collection tool. The researcher has conducted one different FGD<sup>10</sup>s with very knowledgeable heads experts from various private and public offices including from Ministry of Trade, Ministry of Industry, Ethiopia Textile Development Institute, ETGAMA and so on.

The researcher has moderated the discussion and has taken notes which actually is recorded using video recorder to capture the issues raised while the discussion is held. The discussion recorded using the tape recorder is later transcribed in a way it is useful to support the findings of the research as a whole. The findings according to the focused group discussion is simply summarized below.

According to the participants of the FGD, Ethiopian textile and garment industry has a great potential, which has not been cultivated for global performance. We have the potential to domestically produce and be used in the production of textile and garment products for both domestic consumption and export purpose. Complement to this, they have indicated that any FDI is associated with an opportunity of introducing new technology and knowledge transfer that finally will be used to produce products at reasonable cost. However, they disagreed with fact that FDI brings capital to the national economy of the country for the fact that the government incentivize by granting loan to foreign investors.

The participants has also raised that the cost of exporting products to various market destinations is costly and as a result the price the exporters set at international market is becoming less competitive. In contrast to this, the domestic price for their product is high and profitable. In most cases, the domestic price is higher than international prices and as a result, exporters are

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<sup>10</sup> The FGD was composed of 9 participants.(annexed)

reluctant to export their product into international markets. They prefer to sell their product at home than exporting to the rest of the world. In contrast to this, the government want the export in general to be promoted for the fact that earning harder currency.

Additionally, participants on the survey questioner and FGD have identified the following factors that are considered as a factors that affects the export performance.

- Access to finance is something a bottleneck for business environment in general.
- Low infrastructure: There is inadequate supply of electricity with frequent interruptions and the cost of those infrastructure is too costly.
- Better price domestically and discourage firms to export
- Absence of cooperation/collaboration among the government institutions
- Unpredictable macroeconomic policy, changes frequently.
- Lack of enforcement for the incentive packages that the government designed. It is very rare case to get such incentives and it even takes very long time to get implemented.
- Low Export support promotional activities from the Government side.
- Supply shortage of raw-materials and inputs domestically
- Higher degree of workers turnover which adversely affects the export performance of firms.
- Shortage of hard currency for the import of input.

## **Chapter Five**

### **5. Summary, Conclusion and Recommendation**

#### **5.1. Summary**

The study has investigated those factors, both external and internal, that affects the export performance of textile and garment sector in Ethiopia using both quantitative (OLS regression and questionnaire) and qualitative (FGD) method of analysis. The study has revealed that previous years' economic growth measured by GDP and investment made has positive impact on the export performance of the sector and the impact is also statistically significant. Furthermore, the real effective exchange rate has significant and positive effect on the export performance.

However, according to the OLS result, trade openness comes to affect the export performance of the sector negatively. This is traced by the infant industries argument in the sense that domestic manufacturing companies are not yet grown to the level that can challenge the competition from external economies. Infant industry argument discusses that existing domestic companies engaged in the sector will face strong competition from foreign companies and will fail to cover their long-run average cost. If they are selling their product at relatively lower amount, it will take them to cover the cost of production they incurred during the production process and will eventually decide to exit from the business.

Degree of product adaptation for market, considering local market condition in determining price, price competitiveness in international markets, using foreign market distribution channel, training to distributors/subsidiaries, undertaking intensive promotion and others are among the internal factors listed marketing strategy of firms.

According to information collected, most of them have indicated that those factors identified in relation to the marketing strategy are amongst the important factors that affect the export performance. In contrast to the above conclusion, most of the respondent have explained that the amount of training given to the sales force of the distributors/subsidiaries is not significant and the overall support given to your distributors/subsidiaries in the export market is not substantial.

The cost of exporting products to various market destinations is costly and as a result the price they set at international market is becoming less competitive. The domestic price for their product is high and profitable. In most cases, the domestic price is higher than international prices and as a result, exporters are reluctant to export their product into international markets. They prefer to sell their product at home than exporting to the rest of the world. In contrast to this, the government want the export in general to be promoted for the fact that harder currency.

## **5.2. Conclusions**

Ethiopian textile and garment industry has a great potential, which has not been cultivated for global performance. We have the potential to domestically produce and be used in the production of textile and garment products for both domestic consumption and export purpose. Textile and garment sector is among the priority subsectors identified by the Ethiopian government in transforming the country's traditional agricultural based economic activity to industrialization lead rehearsal.

Currently, Ethiopian textiles and apparel industry encompasses spinning, weaving, finishing of textiles, manufacture of cordage, rope, twine, netting, knitting mills, and manufacturing of wearing apparel. The firms in the industry produce products such as cotton and woolen fabrics, nylon fabrics, acrylic and cotton yarn, blanket, bed sheet, shirts, carpets, gunny bags, wearing apparels, and sewing thread.

As the sector among the prioritized sector of the government, the export level of textile and garment industry is found increasing in absolute term. However the trade balance of the sector is still deficit where import level exceeds the exported amount. The Revealed Comparative Advantage (RCA) index revealed that though there is huge enabling and conducive environment on the sector, the country is still enjoying a comparative disadvantages. The researcher has also concluded that the RCA index is increasing with time and approaching the comparative advantage level. This is due to the fact that the government has prioritized the sector and as a result the textile and garment sector is growing. But still there are various external and internal microeconomic and macroeconomic factors that are adversely affecting the export performance of the sector. For instance: due to the current lack of hard currency, exporters are expected to export to the external market even though the domestic currency is better than the international prices. This is due to the fact many of the raw materials are imported from the rest of the world.

### **5.3. Recommendations**

Having drawn the above conclusions, this study has forwarded the following recommendations:

- Exporting firms should invest on the R&D including the market research regarding the market prices, market information and marketing skills of the experts to be improved and will able to boost the export performance of exporting companies at the end of the day. Furthermore sufficient enough trainings should be provided to those subsidiaries/distributors as well.
- The marketing strategies adopted in exporting in relation to the product, price, distribution and promotions help Textile and Garment industry to develop their export performance. This study recommends that, more emphasis must be laid on effective product, price, distribution, and promotion strategies in order to increase firm level export performance.
- Though devaluation encourages exporters, it has an adverse effect for importers. Practically, most of the inputs used to produce textile and garment products are imported from the trading partners. As a result, they are exposed to pay the cost of devaluation while importing. What they earned by exporting their product the rest of the world will

be automatically transferred when they import raw materials and other input. Before deciding to devalue domestic currency, there should be preparedness to convert the costs associated with it into opportunity. The supply side should be strengthened domestically, devaluating in a situation where larger portion of demand is satisfied by importing from the rest of the world will have an adverse impact on the economy.

- Theoretically, trade and FDI are considered as the main channels of introducing new technology and new knowledge. As a result firms should consider this as an opportunity to adapt new technology and diversify their production as well as be able producing larger quantity at lower cost. This in turn will boost their price adaption to offer lower price and become competitive in the international market.
- Most of the cases, Ethiopia government has put strong incentive towards small and micro enterprises which are considered as an engine for the overall economic performance of the country including the job creation. However, those enterprises are not professionally dedicated and committed to be grown into medium enterprise and the larger scale industries. It is found that the middle is missed in the pyramid of business life span starting from micro enterprises up to the higher level multinational corporations due to many internal and external factors. Therefore, those enterprises who are engaged in the textile and garment sector need to be grown and make themselves ready for any competition from foreign companies. A bigger threat in the coming future is when the country is stepping towards the membership of World Trade Organization and other regional integrations. Unless they grow, their destiny will be either merging with others or liquidation/insolvency.
- The exporters should rather to be committed to improve their pricing capability which refers to the firm's capability to adapt the prices and to offer low prices. Price adaptation and ability to offer lower prices can positively affect the export performance of firms.
- Firms should learn from the best performers domestically and internationally.
- Policy makers responsible for developing and implementing export promotion support program must concentrate on building on the competencies and capabilities of producers/exporters whilst formulating and implementing macro-level export policies to help increase export performance. This can be done through training program,

technological assistance, marketing strategy development through consultancies and export promotion support in overseas markets.

- Finally, the significance of research in export performance of various sectors (products) will help improve on firm competitiveness and eventually economic growth of the country. The findings of this study therefore need to be built upon by other studies in order to strengthen the generalization of findings. Researchers may extend the context of the study to include various products at the same time.

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**Annexes:**  
**QUESTIONNAIRE (FOR THE TOP MANAGEMENT OF FIRMS)**  
**ADDIS ABABA UNIVERSITY SCHOOL OF COMMERCE**  
**GRADUATE PROGRAM**  
**IN**  
**MARKETING MANAGEMENT**

I am a graduate student in the department of Marketing in Addis Ababa University School of Commerce. As part of my studies, I am conducting a study on “**Factors Affecting the Export Performance of Textile and Garment Industry: The Case of Ethiopia**”. You are cordially invited to participate in this survey, and I would appreciate you for taking your time to answer the questionnaire. Please answer the following questions as candidly and bluntly as you can! It takes only 15-20 minutes. Please be assured that the responses you give are for academic purposes only and don't put your name on the questionnaire. No individual answers will be analyzed. Rather, only composite information will be used.

I thank you for your assistance in providing this valuable information.

**Note:**

- Please put a mark / √/ on the space provided

Your responses are confidential and used for research purposes only.



C. 5-10 years

D. > 10 years

**2 Legal formation of the Firm**

2.1 Sole Proprietorship

2.2 PLC

2.3 Joint Venture

2.4 Share Company

2.5 Government/Public

**3. Nature of investment**

3.1 Foreign investment

3.2 Domestic investment

**4. Year of Establishment** (Ethiopian calendar) -----

**5. how many employees (both permanent and temporary) does the company has currently ? -----**

**6. What was the total Export sales plan of your firm in 2017 G.C.....In USD**

**7. What was the total Export sales of your firm in 2017 G.C.....In USD**

**8. External and internal factors (Please put a mark / √/ on the space provided to answer the following questions).**

8.1	External Factors (macroeconomic Phenomena of the country)	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		(1)	(2)	(3)	(4)	(5)
A	The <b>Devaluation</b> of birr made by the monetary policy is an encouraging factor for export.					
B	Foreign direct investment (FDI) has an adverse impact on our exporting company?					
C	Macroeconomic policy in general is not predictable.					
D	I believe that our exporting capacity is increasing with the sustainable and consistent economic growth Ethiopia is experiencing.					
E	If Ethiopia economy is opened to external world, our export will be adversely affected.					

8.2 Internal Factors Affecting Export Performance		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		(1)	(2)	(3)	(4)	(5)
<b>8.2.1</b>	<b>Firm Characteristic</b>					
A	Of the total financial capacity, the proportion of financial resources allocated to the export activity is substantial.					
B	Of the total, the amount of human resource deployed to the export activity is satisfactory					
C	There is a lack of skills and capability to handle new technology					
D	Your firm considers export marketing knowledge as very important in the organization development					
E	The level of expenditure on R& D for the export activity is considerable compared to the firms overall Rand D expenditure					
F	The firm's management is more engaging towards the export activities					
G	The management has foreign trade exposure or international experience					
H	The level of planning involved concerning the export activity is significant					
<b>8.2.2</b>	<b>Export Marketing Strategy</b>					
I	Degree of product adaptation for market entry is substantial					
II	Your company is considering local market condition in determining price					
I II	Your prices is very competitive on the international market					
V	Degree of adaptation of your promotional strategy for the export market is considerable					

8.2 Internal Factors Affecting Export Performance		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		(1)	(2)	(3)	(4)	(5)
IV	Your firm has been undertaking an intensive promotion in overseas markets					
VI	Your firm has been using foreign market distribution channels effectively					
VII	The overall support given to your distributors/subsidiaries in the export market is substantial.					
VII I	The amount of training given to the sales force of your distributors/subsidiaries is significant					

**9. External and Internal Factors to be ranked according to the following instruction**

**9.1 External factors**

From the Following external factors listed below, please indicate the level of severity in affecting your export performance, (1) being the most severe and (4) the least severe.		
<i>No</i>	<b>Factors to be ranked</b>	<i>Order</i>
<i>1</i>	The Devaluation of birr made by the monetary policy is an encouraging factor for export. (Exchange Rate)	
<i>2</i>	The inflow of Foreign Direct Investment (FDI)	
<i>3</i>	Economic growth Ethiopia is experiencing.(GDP growth)	
<i>4</i>	Market Opens/ liberalization	

**9. 2 Internal Factors to be ranked according to the following instruction**

From the Following firm level factors listed below, please indicate the level of severity in affecting your export performance, (1) being the most severe and (10) the least severe.

<i>No</i>	<b>Factors to be ranked</b>	<i>Order</i>
<i>1</i>	Financial Resources	
<i>2</i>	Firm Capabilities and Competencies	
<i>3</i>	Firm's Commitments to export	
<i>4</i>	Management Experience to the International Market	
<i>5</i>	Research and Development activity of export	
<i>6</i>	Product Adaptation to the local market	
<i>7</i>	Price competitiveness on the international market	
<i>8</i>	Promotion strategy and Promotion Adaptation	
<i>9</i>	Using foreign market distribution channels	
<i>10</i>	Relationship with distributors in foreign markets	

**10. What other problem(S) did you face regarding the overall functioning of the company's export activity?**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**11. From your practical experience in export marketing would you mention some other factors that can affects the export performance of your company?**

\_\_\_\_\_

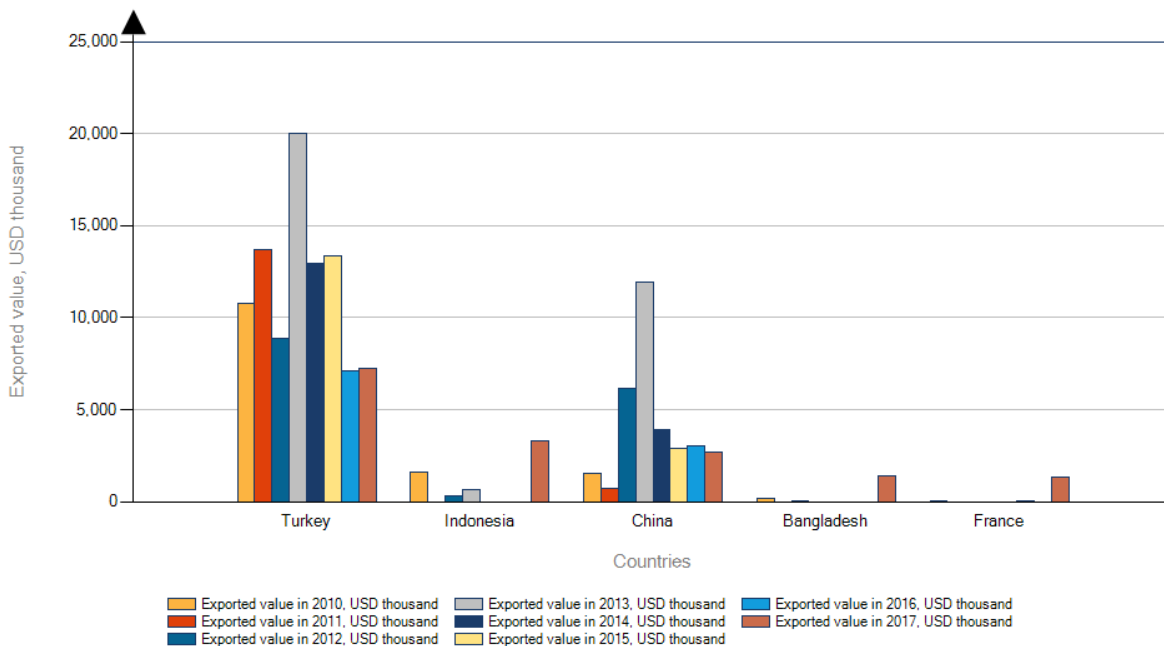
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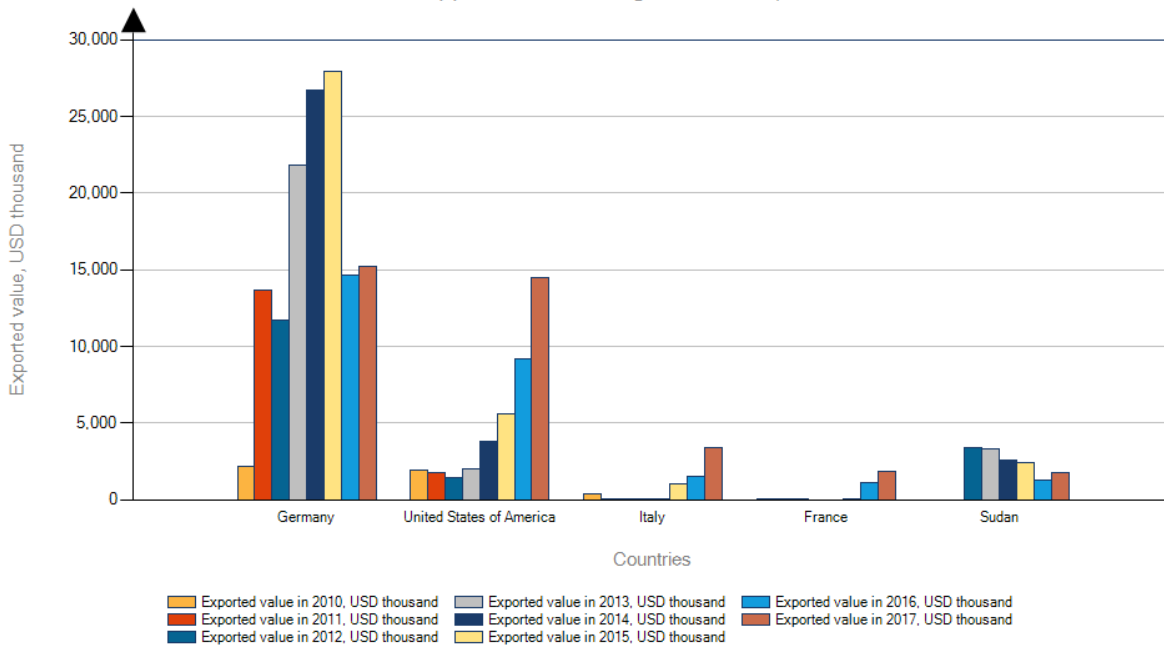
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*Thank you very much for your caring cooperation once again!!*

List of importing markets for a product exported by Ethiopia  
Product: 52 Cotton



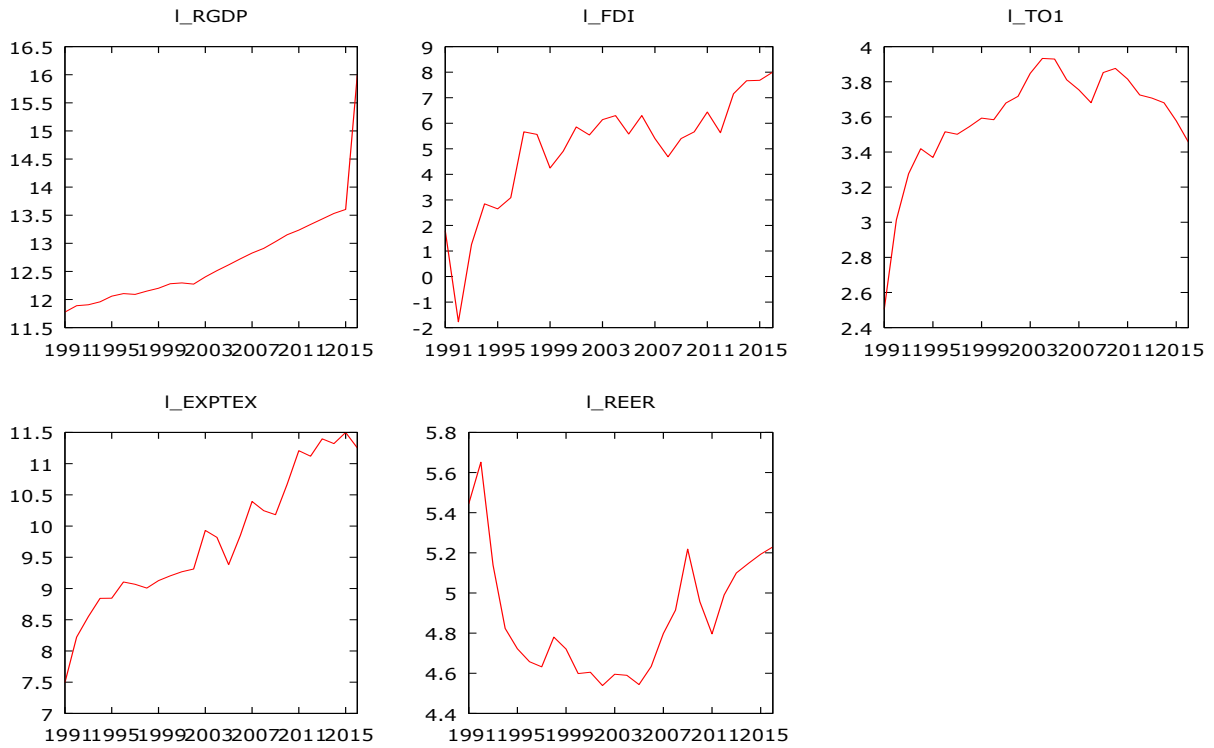
List of importing markets for a product exported by Ethiopia  
Product: 61 Articles of apparel and clothing accessories, knitted or crocheted



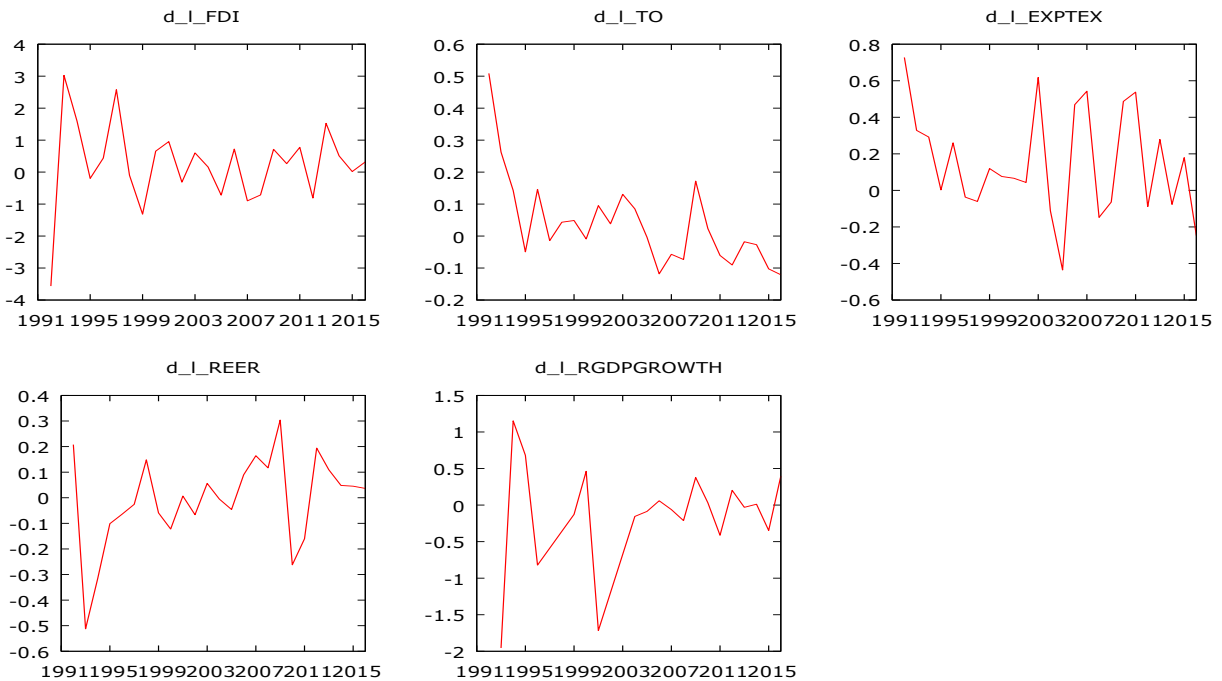
Revealed comparative advantage of textile sector in Ethiopia (Thousands of Dollar)

Year	World-Total	World-Textile	Eth-Total	Eth-Textile	RCA-Ethiopia
2008	15978286410	650200935	1601835	28181	0.432336
2009	12348658350	559491937	1618166	26431	0.360509
2010	15090582760	643739593	2329793	43009	0.432751
2011	18078609138	756651354	2614892	73650	0.672958
2012	18383663774	743012816	2741298	67411	0.60843
2013	18984874108	799413775	2591042	89057	0.816262
2014	18980985113	836144154	2977916	82493	0.628843
2015	16505354869	772910226	2697080	98673	0.781269
2016	16012186359	755606079	2615931	77022	0.623941
2017	17414100280	781662573	2862593	99434	0.77385

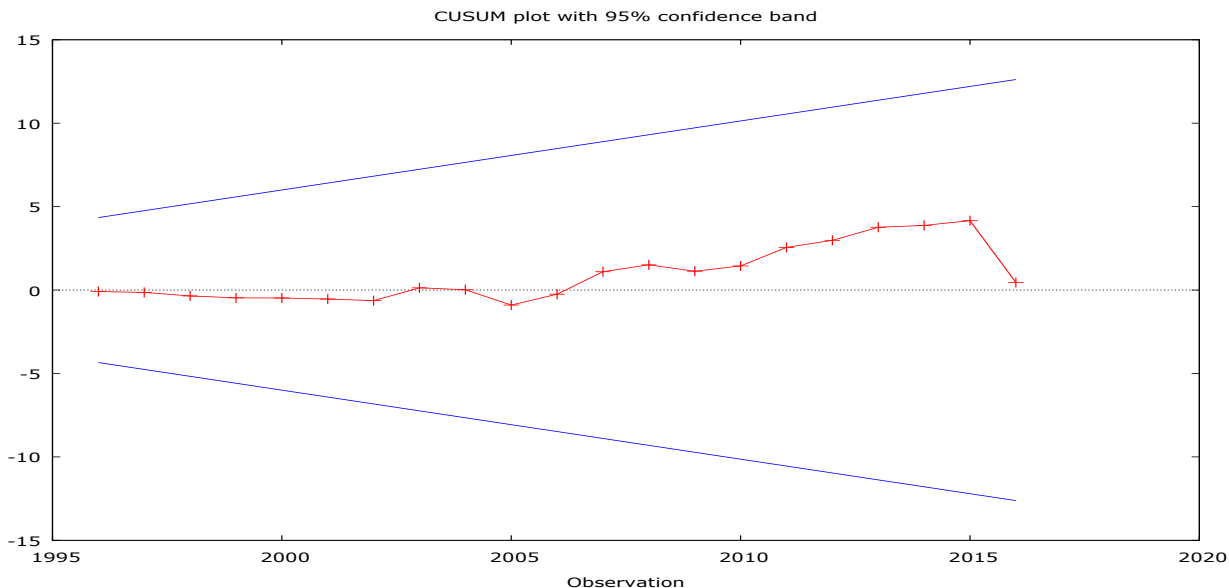
Stationarity Test using time series plot at their level



Stationarity Test using time series plot at their first difference



CUSUM test for stability of parameters



Variance Inflation Factors  
 Minimum possible value = 1.0  
 Values > 10.0 may indicate a collinearity problem

```

l_RGDP  3.461
l_FDI   4.014
l_TO    2.642
l_REER  2.803
    
```

$VIF(j) = 1/(1 - R(j)^2)$ , where  $R(j)$  is the multiple correlation coefficient between variable  $j$  and the other independent variables

Belsley-Kuh-Welsch collinearity diagnostics:

```

--- variance proportions ---
lambda  cond  const  l_RGDP  l_FDI  l_TO  l_REER
4.705   1.000  0.000  0.000  0.001  0.000  0.000
0.288   4.043  0.000  0.000  0.103  0.000  0.000
0.006  27.184  0.000  0.006  0.080  0.252  0.017
0.001  77.876  0.483  0.258  0.214  0.127  0.000
0.000  147.329  0.516  0.736  0.602  0.621  0.983
    
```

lambda = eigenvalues of  $X'X$ , largest to smallest  
 cond = condition index  
 note: variance proportions columns sum to 1.0

