T.C.

ISTANBUL COMMERCE UNIVERSITY

GRADUATE SCHOOL OF SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

ECONOMICS PROGRAM

THE IMPACT OF INTERNATIONAL TRADE AND FDI ON ECONOMIC GROWTH IN ETHIOPIA

Master`s Thesis

Yahya Migane KAMIL

200008965

Istanbul, 2021

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ÖZET

Uluslararası ticaret, ekonomik kalkınmanın önemli bir aracı olarak tanımlanmıştır. Özellikle gelişmekte olan ülkelerde ticaretin serbestleştirilmesinden sonra doğrudan yabancı yatırımların (DYY) önemi artmıştır. Bu çalışmanın amacı, 1990-2019 döneminde Etiyopya'da uluslararası ticaretin ve DYY'nin ekonomik büyüme üzerindeki etkisini En Küçük Kareler (EKK) yöntemi, Granger Nedensellik Testi ve Johansen Eşbütünleşme uygulayarak değişkenler arasındaki ilişkiyi bulmaktır. Ekonometrik sonuçlar, DYY, ihracat ve nüfusun ekonomik büyüme ile pozitif ve anlamlı bir ilişkiye sahip olduğunu, ithalatın ise anlamsız bir etkiye sahip olduğunu göstermektedir.

Çalışma, Etiyopya'nın iyi bir makroekonomik ve mikroekonomik ortamı teşvik eden ve yaratan politikaları teşvik etmesi gerektiğini ve ayrıca altyapı da dâhil olmak üzere yerel koşulları iyileştirmek amacıyla doğrudan yabancı yatırım çekmek için gerekli politikaların uygulanmasının gerektiğini önermektedir. Son olarak, yüksek ithalata bağımlılık oranı nedeniyle Etiyopya hükümeti ülkedeki ihracat oranını artıracak yerel kaynakların teşviki ve iyileştirilmesi üzerinde yeniden düşünmeye başlamalı ve politika yapıcılar, etkin para politikası kullanarak enflasyonu kontrol altına almalıdır.

Anahtar Kelimeler: Uluslararası Ticaret, DYY (Doğrudan Yabancı Yatırımı), Ekonomik Büyüme, Etiyopya.

ABSTRACT

International trade has been identified as important supplement for the economic development; the importance of FDI have increased after trade liberalization particularly in developing countries, However, the purpose of this study is to investigate the effect of international trade and FDI on economic growth in Ethiopia the period 1990-2019 by applying Ordinary Least Square OLS test, Granger Causality Test and Johansen Cointegration to find the relationship between variables. The results show that foreign direct investment, export, and population have a positive relationship with the economic growth, whilst the import is insignificant.

The study recommends that Ethiopia should promote policies that encourage and create a good macroeconomic and microeconomic environment as well as the country should balance the cost of policies to attract foreign direct investment over those seeking to improve local conditions including the infrastructure. Finally, imports dependence ratio is not bright, so Ethiopia government should start rethinking on the promotion and the improvement of local resource by improving the export ratio in the country and policymakers should promote a strategy and policy to control the inflation level of the region by using effective monetary policy.

Keywords: International Trade, FDI, Economic Growth, Ethiopia

DECLARATION OF ORIGINALITY

I, Yahya Migane Kamil, certify that,

- I am the sole author of this thesis and have fully acknowledged and documented in it all sources of ideas and phrases, including digital resources, created or published by another person or institution.
- This thesis contains no material that has been submitted or approved for a diploma or degree in any other educational institution.
- This is an original copy of the thesis that was authorized by my advisor and thesis committee at Istanbul Commerce University, including final revisions required by them.

Yahya Migane Kamil

Date: Aug 2021

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Yahya Migane Kamil

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TABLE OF CONTENTS

ÖZET ..... **i**
ABSTRACT ..... **ii**
DECLARATION OF ORIGINALITY ..... **iii**
ACKNOWLEDGEMENTS ..... **iv**
TABLE OF CONTENTS ..... **v**
LIST OF FIGURES ..... **vi**
LIST OF TABLES ..... **vii**
LIST OF ABBREVIATIONS ..... **viii**
1. INTRODUCTION **1**
2. LITERATURE REVIEW **5**
2.1 Empirical Review 5
2.1.1 International Trade and Economic Growth 5
2.1.2 FDI and Economic Growth 15
3. OVERVIEW OF ETHIOPIA ECONOMIC PERFORMANCE **32**
3.1 FDI and Economic Growth of Ethiopia 32
3.2 International Trade of Ethiopia 35
3.3 Trends of Agricultural Exports in Ethiopia 38
4. RESEARCH METHODOLOGY **42**
4.1 Data 42
4.2 Theoretical Framework and Model specification 43
4.3 Method of Estimation 44
4.3.1 Descriptive Statisitcs 44
4.3.2 Unit Root Test 46
4.4 Ordinary Least Square (OLS) Test 47
4.5 Granger Causality Test 48
4.6 Johansen Cointegration Test 49
4.7 Diagnostic test 50
5 CONCLUSION AND POLICY RECOMMENDATION **52**
REFERENCES **56**

LIST OF FIGURES

Figure 1. Ethiopia Foreign Direct Investment 2010-2019 (Billion USD) 34
Figure 2. GDP growth annual change in Ethiopia 2000-2019.....34
Figure 3. Ethiopia Trade Balance 2011-2019 (Billion USD) 36
Figure 4. Ethiopia Exports 2011-2019 (Billion USD).....37
Figure 5. Ethiopia Imports 2011-2019 (Billion USD**)**.....38
Figure 6. Ethiopian Coffee Importing Countries 2011-2019 (Billion USD).....41
Figure 7. Conceptual Framework 43

LIST OF TABLES

Table 1. Literature Review.....25
Table 2. Main variables.....42
Table 3. Descriptive Statistics.....45
Table 4. Unit Root Test.....46
Table 5. Ordinary Least Square, Dependent Variable: LNGDP.....47
Table 6. Granger Causality 48
Table 7. Johansen Cointegration Test 50
Table 8. Diagnostic test.....50

LIST OF ABBREVIATIONS

ASEAN: Association of Southeast Asian Nations

ARDL: Autoregressive Distributed Lag

EPRDF: Ethiopian People's Revolutionary Democratic Front

FDI: Foreign Direct Investment

GC : Granger Causality

GDP : Gross Domestic Product

INF: Inflation

ITO : International Trade Organization

M: Import

M&A: Mergers and Acquisitions

MDG: Millennium Development Goals

NPC: National Planning Commission

ODA: Development Assistance Official

OLS: Ordinary Least Square

PASDEP: Plan for Accelerated and Sustained Development to End Poverty

POP: Population

UNCTD : Development United Nations Conference on Trade and Development

WAEMU: West Africa Economic and Monetary Union

X: Export

1. INTRODUCTION

Trade and FDI inflows allow a country to grow, so we need them. Trade leads to the acquisition of competences that can be established using highly efficient innovation and technology. Exporters may use technology and innovation, when operating as subcontractor companies to foreign companies or by international market competition. The goal is, however, to increase the competition of foreign firms with imported substitutes. To compete with emerging nations that often create capital-intensive items, it is necessary to have more capital-intensive manufacturing facilities (Frankel & Romer, 1999).

Trade openness is associated with economic development through the acquisition of physical capital as well as the diffusion of technological improvements. Foreign direct investment's principal function is to generate income for the host country's domestic investment. Foreign investment in commodities and inter-company transfers of intermediate goods are two ways to do this. Additionally, FDI may contribute to the determination of a host country's export capabilities, helping developed countries to increase their earnings from trade. On the other hand, the FDI can sometimes be beneficial to a country by strengthening the trade, technology transfer, and economic growth. According to Wang and Blomström (1991), technological spillovers are largely achieved via the four main channels of competition, mutation, skills and alliance. The majority of empirical studies examined the association between FDI, trade, and GDP growth, as well as the linkage between economic and trade (Pahlavani, Wilson, & Worthington, 2005). All these studies showed trade and FDI inflows to be positively associated with economic development. However, in order to reach a conclusive conclusion about the associations in these developing countries, more research is needed. The impact of FDI on economies differs by country. Both trade and FDI can actually slow economic growth in some countries (De Mello, 1999).

The main importance of this thesis is that Ethiopia is the second largest populated country in Africa and the first most populous country in East Africa. Ethiopia has faced a half-century of military dictatorship, civil war, and devastating famine. It has risen to prominence as a significant force in the Horn of Africa in recent years, owing to rapid

economic expansion and growing strategic importance in the region. The subject of FDI and international trade is significant due to a number of current trade trends.

Additionally, a benefit of FDI is its ability to stimulate growth and development, particularly in emerging economies that lack the resources to stimulate their own long-term growth (United Nations Conference on Trade and Development, 2013). Foreign direct investment is considered as a necessary component of financial globalization, in part because of the potential advantages to host nations. It has risen at a greater rate than trade flows in recent decades (Blonigen, 2005). Academic scholars have proposed a variety of theoretical arguments regarding FDI contributions to the host economy, with the overall benefits categorized as both direct and indirect. The effects of macroeconomics arise as a result of increased spending, tax revenue, employment creation, and foreign exchange receipts. Additionally, these long-term consequences arise as a result of technology spillovers to domestic companies (Paus & Gallagher, 2007). FDI can enhance productivity by boosting total factor productivity and thus the host country's resource utilization efficiency.

Ethiopia needs to implement and sustain structural and economic reforms in order to achieve both sustainable and inclusive development. Although economic reforms promoting transparency, diversification, and public governance have continued to advance in East Africa, the 2011 uprisings have demonstrated that these efforts have not yielded broad-based prosperity for all socioeconomic groups. In fact, economic deprivation and the difficulties that people face due to inequality are substantial causes of social malaise. To foster a more transparent and sustainable economy and to strengthen governance, it is necessary to collaborate in order to improve the environment for the younger generation. Ethiopia has an integral focus on attracting FDI and liberalizing trade. Thus, the study's contribution is to examine the effect of international trade and foreign direct investment on economic development in Ethiopia.

Numerous prior studies have evaluated the influence of foreign investment on a country’s economy, while others have examined the relationship between economic growth and FDI. Studies vary in outcome as well. Ethiopia is striving to secure investment from abroad to facilitate economic growth. Some developed countries claimed that FDI stimulated economic growth while others thought that FDI stimulated economic growth. Some also claimed that a bi-directional association existed between FDI and economic development.

These analyses reveal how international trade and FDI relate to economic development. This study aims to contribute to resolving these analytical knowledge gaps by evaluating the influence of FDI and trade openness on Ethiopia's economic growth. In contrast to earlier empirical research on the issue, which focused primarily on the presence of a correlation between the two variables. Only a long-term connection between the two variables can ensure long-term economic progress. The research's primary aim is to determine FDI and international trade positions of Ethiopia's economic growth. The following study questions are based on this research and aim to examine both short- and long-term quantitative data in order to illustrate the importance of FDI and international trade in Ethiopia's economic development.

How will foreign direct investment and international trade influence Ethiopia's economic development?

H1: Foreign direct investment has a positive impact on economic growth.

H2: Export has a positive effect on economic growth.

H3: Import has a negative on economic growth.

According to the study, foreign investment for Ethiopia is beneficial and aids to the country's economic progress. Time series data were used in the analysis. The relation between FDI and economic growth in international trade in Ethiopia should be key. The remaining of this thesis was structured as following: - The thesis contains five chapters. After the introduction, chapter two focuses on the literature review: this section provides an empirical study on FDI, economic growth as well as international trade. It additionally explains the main international trade and FDI drivers in Ethiopia. Regarding chapter three, the thesis will discuss the economic performance of Ethiopia. This section takes a look at the economic performance of Ethiopia, in terms of a general overview of economic growth, FDI and international trade. A general overview of the country's economic development history will also be provided. Chapter four is the research methodology of the study which is consists of the conceptual framework, model of specification based on the theory adopted, data and method of estimation. The theoretical framework employed in this study is explored by reviewing the analysis and the interpretation of the study in terms of the role FDI and

international trade on economic growth. The fifth and the final chapter, the thesis sums up all findings and suggests policy recommendations for Ethiopia.

2. LITERATURE REVIEW

This section provides the major established impact of international trade and FDI on economic growth. Numerous studies on the relationship between FDI, international trade, and economic growth have been conducted in the literature of this thesis. In recent years, academic interest in FDI and economic growth, as well as international trade has increased, particularly in developing countries. This section examined the critical role of international trade and FDI in Ethiopia's economic development.

2.1 Empirical Review

2.1.1 International Trade and Economic Growth

International trade is the exchange of goods and services between countries. In other words, trade is equal to the amount of imports and exports. Globally, the majority of economists believe that foreign trade helps nations increase their income. When an individual or business purchases a cheaper product or service from another country, both countries' living standards may increase. International trade is vital to the economic wellbeing of each country. It enables the population's basic needs to be met and stimulates internal growth in the region. Numerous economists have considered foreign trade issues. However, Wong (2010) using time series results, examined the impact in terms of trade volatility economic growth in Korea and Japan. The effect of the Johansen Cointegration method shows that actual terms of trade and GDP per capita are measured concurrently. In general, an increase in international trade uncertainty translates in a fall in real GDP per capita. Increases in the price of oil result in a fall in the terms of trade. Decompositions of the generalized forecast error variance reveal significant differences in the primary factors to real gross domestic product per capita in Korea and Japan. Economic growth requires affordability and trade continuity. Awokuse (2008) studied openness of trade and economic growth. Prior research has mostly concentrated on the export expansion's impact on economic development. This article examined the connection between economic development and trade in Argentina, Colombia, and Peru, with an emphasis on both imports and exports. GC test is used to examine whether more trade increases economic progress. The findings indicate that

previous research's focus on exports alone as a growth engine may have been deceiving. While there is some empirical evidence in favor of exported-led growth, the concept of import-led development has substantially more empirical backing. In rare cases, additionally, there is evidence of a reserve correlation among GDP growth, imports and exports. Dar and Amirkhalkhali (2010) observed on the impact of trade liberalization on growth in OECD countries. The model is using the random coefficients approach. The findings suggest that the relative relevance of trade openness to economic growth varies substantially between nations, they also suggest that the role of capital and labor accumulation in supporting economic growth changes dramatically with openness, both cross-sectionally and across time.

In addition, Santos-Paulino (2011) examined export productivity, development and trade specialization in India, China, Brazil and South Africa, as well as a representative sample of other countries, System GMM estimator model . The study estimated different indicators of a time-varying export productivity indicator and trade specialization by using highly disaggregated export date. The results indicate that significant variations exist between countries and regions in terms of export productivity and specialization patterns. The findings reinforce the value of not only export volume, but also the form of specialization patterns. Export productivity and complexity in exports are comparable to those of wealthy and more developed economies

Nevertheless, Klasra (2011) studied economic development, FDI and openness of trade in Turkey and Pakistan. Autoregressive distributed lags (ARDL) model is used to examine the presence of a long run equilibrium connection about the growth determinants in Pakistan and Turkey from 1975 to 2004. In the short term, the findings indicate a bidirectional causality between exports and FDI in Turkey and exports and trade openness in Pakistan. Turkey and Pakistan's long term partnership findings support both the hypothesis of growth-driven exports and the openness of growth nexus. Liu and Xin (2011) examined why the trade of China has expanded at such a fast rate. Using by CES model. They found that the variables that contributed to China's quick growth by segmenting it along with consumer preferences, income growth, and some other aspects. Preference changes accounted for 35.8 percent of export growth and 41.9 percent of import increase over this time period.

Development income accounts for 28.4 percent of export and import output, respectively. Moreover, income convergence led to export and import growth respectively of around 24% and 11.3% respectively. Those results were based on a multi-regional model of the global economy's general numerical balance with major trading blocks are tuned to 1975 and 2004 data.

Furthermore, Hye (2012) in Pakistan's case, the researcher examined the long run effect of trade openness on development economics. Between 1971 and 2009. PCA is used to build a composite exchange transparency index that can be employed in Johansen Cointegration, ARDL, OLS, Cointegration and variance decomposition. The findings revealed a negative and statistically significant impact of trade openness on economic growth. This analysis presents additional evidence that a clear complementarity exists in terms of improving economic growth between human capital index and trade openness. Tekin (2012) studied development aid, economic progress and trade liberalization in least developed countries. From 1970 to 2010, using a novel Granger causality testing approach that accounts for cross-sectional dependence and heterogeneity. This study examined the causal links about economic progress, development assistance and trade openness in Least Developed Countries (LDCs). They founded that there is no significant causal association between trade liberalization, economic growth and foreign aid in a panel of African LDCs. According to Nasreen and Anwar (2014) studied causal relationship between trade openness, energy consumption and economic development. This study examined the connection trade openness, economic development, and energy use using data from 15 Asian countries from 1980 to 2011. Using panel cointegration and causality techniques, the article examined the long-run and causal relationships between variables. The existence of cointegration between variables is scientifically established. Economic development and trade liberalization are found to have a beneficial influence on energy use. GC analysis of panel data indicates that energy use and economic growth are bidirectionally related, as is trade openness and energy consumption.

According Ulaşan (2014) examined openness of trade and economic growth in Turkey. Using a variety of openness measures, this article studied the openness–growth intersection in a dynamic panel data framework. The study evaluated the findings' robustness

by limiting the number of instruments used. The data indicate that lowering trade barriers does not result in increased growth. Jouini (2014) studied linkage between international trade and economic in GCC nations. The study employed the Pooled Mean Group (PMG) technique following a recent bootstrap panel test for cointegration. The goal of this paper was to explore the evidence obtained empirically regarding the association link economic progress and international trade openness by incorporating auxiliary variables into the model for the six Gulf Cooperation Council (GCC) countries from 1980 to 2010. The findings reveal that the relevant factors are cointegrated and trade liberalization benefits economic growth in the short and long run. Chang and Mendy (2014) studied openness and economic development in Africa, using a panel data set comprising 36 African nations The goal of this research was to ascertain the impact of trade policy on African economic growth. From 1980 to 2009, Fixed-effects models are used to conduct panel regressions. The objective was to give factual proof for the economic development engine that is Africa. They funded that trade and investment liberalization are strongly connected with economic growth. Foreign aid, gross national savings, and investment, on the other hand, all have a negative association with GDP growth and GDP. By comparison to South Africa, regional performance reveals that North Africa is the most successful at generating positive GDP development through FDI, followed by Middle Africa and East Africa.

Sakyi, Villaverde, and Maza (2014) studied income levels, economic growth and trade openness. Using by panel cointegration approaches in a sample of 115 developing nations from 1970 to 2009. The purpose of this article was to determine the extent to which openness of trade has influence on growth rates and income levels. The findings indicate that over the long term, trade openness has a positive bidirectional connection with income levels, indicating that trade openness is both a cause and consequence of income level. The link between economic development and increased openness is constant in the short run.

Menyah, Nazlioglu, and Wolde-Rufael (2014) studied financial growth, trade openness and economic development in African states, Granger causality using a panel bootstrapped approach. The aim point of this article was to examine the causal link among financial development and economic development in twenty-one African countries via the lens of international commerce. The article constructed a financial development index

utilizing four distinct financial development variables. The findings indicate that recent efforts to strengthen financial markets and liberalize trade have had little influence on growth. And also Asghar and Hussain (2014) examined the causal relational connection financial development and economic growth in emerging nations. The financial development index is produced, and panel cointegration tests are used to determine whether the variables of interest have a long-run relationship. The study's findings reveal that in emerging countries, there is a substantial long-run association between financial development and economic growth. There is a bidirectional causal relationship between financial progress and FDI. Furthermore, openness of trade has an effect on all countries' financial development, demanding the adoption of proper legislative measures to promote international commerce. Brueckner and Lederman (2015) used variables instrumentals to explore the connection among trade openness in Sub-Saharan Africa. The result shown that economic growth has a significant contemporaneous negative effect on trade openness, whereas trade openness has a large contemporaneous positive impact on economic growth.

Were (2015) studied the differential effects of trade on investment and economic growth. The research empirically assessed the unequal influence of trade on economic growth and investment using cross-country data. In general, the data corroborate the literature's conclusion that trade benefits economic growth. However, empirical evidence from a variety of countries reveals that, while trade benefits developed and growing economies, it has an insignificant effect on LDCs, the majority of which are countries in Africa. Nonetheless, additional findings indicate that trade is a significant driver of both FDI across all groupings, including LDCs, and domestic investment in both developing and LDC countries. Fetahi-Vehapi, Sadiku, and Petkovski (2015) conducted an empirical analysis of the economic growth consequences of trade openness. The purpose of this article is to examine the effects of trade openness on economic in Southeast European (SEE) countries. Despite the fact that these countries are at varying levels of growth and integration into the European Union, there are no notable disparities in terms of trade openness. The GMM system is chosen as the best suited estimating approach for a variety of econometric difficulties, including endogeneity issues. The estimation results reveal that trade openness's positively effects on economic growth are constrained by beginning income per capita and other explanatory variables;

otherwise, there is no robust connection between these two variables. Additionally, trade openness benefits nations with a higher baseline income per capita, as well as those with a higher degree of FDI and gross fixed capital formation.

Moreover, Modeste (2016) studied the economic development and trade liberalization in Guyana. The article examined the links between trade liberalization and economic performance in Guyana by applying time series analytic econometric methodologies. The study's findings suggest that Guyana's economic performance is helped by trade liberalization in long and short term. Indeed, all trade liberalization indicators employed in this analysis the average import tariff rate and a dummy variable reflecting quota and import licensing adjustment stages were statistically significant and properly signed. Majeed and Malik (2016) observed the linkage between economic growth, trade and e-government. This paper aimed to address this question by using simultaneous equation estimation method and using a cross section data of 147 countries. This is first research which has empirically estimated the bilateral relationships between economic growth and e-government helps foster both economic growth and trade. The findings indicated the presence of a bilateral relationship among e-government, economic development, trade and growth.

Sakyi and Egyir (2017) studied effects of trade, economic growth and FDI in Africa. Using by estimating an improved endogenous growth model utilizing a dynamic system generalized method of moment (GMM) estimate approach that takes into consideration any endogeneity problems in 45 African countries from 1990 to 2014. They researched the impacts of trade on economic development and FDI in Africa. The findings showed that the FDI and export have positive influence on economic growth. The result also showed that the respond effectively of Bhagwati hypothesis and give critical information for establishing policies that can support and encourage the export promotion programs and the channeling of FDI into export-oriented enterprises as a means of achieving African governments' long-term development goals.

Zahonogo (2017) studied economic growth and trade in developing nations. The study analyzed data from 42 SSA nations from 1980 to 2012 using a dynamic growth model. The purpose of this study was to determine the effect of trade openness on economic growth in

developing nations, with a particular emphasis on Sub-Saharan Africa (SSA). The paper also used the PMG estimate technique. The findings are encouraging and reinforce the concept that the relationship between progress of economic and trade openness in SSA is not linear. As a result, SSA nations must improve their trade openness, particularly through more productive import control, in order to increase economic growth through international trade. Sokolov-Mladenović, Milovančević, and Mladenović (2017) examined evaluation of trade influence on economic growth rate. The impact of trade characteristics on the accuracy of economic growth predictions was examined in this study. The research was carried out utilizing a method of computational intelligence that is capable of handling extremely nonlinear data. The major goal was to ascertain which characteristics have the greatest impact on the percentage of economic growth. Keho (2017) explored trade openness on economic growth in Ivory Coast. Cointegration was determined using the ARDL test while Granger causality was determined using the Toda and Yamamoto Granger tests between 1965 and 2014.The findings demonstrate that trade openness improves both short-run and long-run economic growth. Additionally, capital development and trade openness have a strong and beneficial complementarity in terms of stimulating economic growth. The result shown that is positive correlation between two variables.

Moreover, Ha and Tran (2017) carried out the linkage between employment and international trade. Current research on manufacturing jobs and foreign trade mostly uses a medium-sized approach to regression, concentrating primarily on advanced countries. Also few research in developing countries have adopted a quantitative regression approach to investigate this relationship. This study considers the effect of expanded foreign trade on jobs in a developing nation, Vietnam, for the first time by using a panel dataset that is unbalanced for the 2010-2015 period, they resulted that is a positive correlation between foreign trade and firms' jobs when the smallest square is used. However, the study discovered that global trade is negatively associated with employment for businesses in the low employment percentile. Gnangnon (2018) observed the effect of multilateral trade liberalization and economic growth. In recent years. This paper analyzed the economic growth rate effect of multilateral trade liberalization with the use of a panel dataset of 150 nations from 1995–2015. The findings indicate that multilateral trade liberalization have a clear significant and

positive affect on growth of the economy in both subsamples and the whole sample. Asamoah, Mensah and Bondzie (2019) studied the linkage between FDI, economic growth and trade openness in Sub-Saharan African. The researchers analyzed data from 34 SSA countries from 1996 to 2016 using a Structural Equation Modeling (SEM) method. The study discovered evidence of FDI having a diminishing influence on economic growth, which grows monotonically in the absence of institutions. The article discovered a positive influence of institutions on trade openness in the trade openness – growth nexus. The results also demonstrate that institutional quality has a beneficial effect on growth, but not on FDI. In Sub-Saharan Africa, resource rent, human capital and financial development all have favorable influence on economic growth. Finally, the findings revealed the necessity for a concerted approach to strengthening institutional quality in order to boost SSA's economic growth and development.

Kalai and Zghidi (2019) investigated the association of developmental economic international trade and FDI in 15 selected Middle Eastern and North African Countries from 1999 to 2012 by using an ARDL test to determine the Cointegration and vector error correction model. The findings imply that in the long run, FDI and economic growth in MENA nations have a one-way relationship. Additionally, the study showed that FDI would have a positive spillover effect on the aforementioned countries. However, Gnangnon (2019) explored the role of tax reforms on trade openness in developing countries, using by Random Effects Estimators method from 1980 to 2014. The study analyzed 92 developing nations and discovered a favorable correlation between tax reform and trade openness. Notably, LDCs have a greater impact on trade openness than non-LDCs do on tax reform. The result indicates that less developed developing countries have a greater beneficial impact on trade openness than more developed developing countries.

Furthermore, Wei and Chen (2019) studied the impact of foreign trade improvement in port planning. Using by Hausman test rule. The finding shown there is a strong positive linking in the field of port planning between external trade and economic progress. The empirical results of the model indicate that it would reduce foreign trade port expenses and increase the regional port economy's core competitiveness when used for foreign trade strategy and managing, maximizing managing benefits. At the same time Wei and Qin (2019)

observed risk early-warning model of marine international trade. The automated early warning model for risk associated with maritime international trade shipments is built on Support Vector Machine. The predictive regression analysis technology panel data is used to diagnose awareness of the international maritime exchange waybill's vulnerability characteristics. The simulation results indicate that the model is capable of effectively predicting the risk associated with international maritime trade, that early warning is effective, and that the resilience of maritime trading risk bill early warning is high. Vidya, Prabheesh, and Sirowa (2020) investigated the systemic change in global trade in the last 20 years empirically through a network model analyzing trade integration, leadership and regionalization. The study has selected 50 developing and developed countries, divided into nine regions for the years 1990, 1992, 2000, 2010, and 2017. This article summarize trade liberalization has decreased the distance between the core and the periphery, and also trade liberalization has reforming and redeveloping the framework of global trade for many countries.

Malefane (2020) studied economic increase and trade liberalization in Botswana. The goal of this study is to analyze the dynamic effect of trade liberalization on economic development in Botswana through the use of the ARDL bounds testing technique. The findings underscore the crucial significance of general commerce and exports in creating economic progress in Botswana. Particularly, the results demonstrate that liberalize trade has a strong, positive effect on economic growth in both the short and long run. When the imports to GDP ratio is employed as a proxy for openness, however, the study reveals little evidence of trade openness having a significant influence on economic progress in the long run. In light of these findings, this study recommended that Botswana take steps to boost exports and total trade. However, the mix of the country's imports must be reconsidered in order to maximize the growth-enhancing effects of the imports sector.

Kpomblekou and Wonyra (2020) addressed spatial diffusion of international trade in West Africa Economic and Monetary Union (WAEMU). The purpose of this article was to examine the spatial diffusion of international trade inside the WAEMU. The study conducted current panel data for the union's eight member countries from 1960 to 2015. The findings indicate that foreign trade is spatially and positively spread inside the union. Thus, the union

generates economic gains between member countries. Helen and Afolabi (2021) examined international trade and economic growth in Nigeria. For the period 1980 to 2018, this research evaluated the impacts of foreign commerce on Nigeria's economic growth closely. The study utilized time series data on variables deemed to be important indicators of economic growth and international trade. According to the study's conclusions, Nigeria's economic growth is significantly influenced by trade exports. Additionally, the data reveals that import trade had no apparent impact on Nigeria's economic progress over the time under consideration. As a result, the research advises that policymakers implement policies that promote global commerce, resulting in more exports and decreased imports, which deplete the nation's resources, while also encouraging export diversification into non-oil sectors.

Farag, Ab-Rahim, and Mohd-Kamal (2021) studied economic growth and foreign trade relationship in Libya. The purpose of this study is to examine the short- and long-run causal link between international trade and economic growth in Libya from 1990 to 2017. To accomplish the study's purpose, the Johansen cointegration test, the error correction model (VECM), and the Wald test are used. The findings of this study establish a long-term link relation about foreign trade and economic growth in Libya. In this line, there is a correlation between imports, exports and economic increase in the short run. Abendin and Duan (2021) studied global trade and economic development in Africa. Using a sample of 53 nations, this article examined the impact of the digital economy on global trade on Africa's economic growth from 2000 to 2018. After dividing the sample into five subregions, the POLS, random and fixed effects, and GMM models were used to estimate the results. The findings indicate that trade has a positive effect on economic development in the POLS estimations only when it interacts with the digital economy; however, trade has a significant positive effect on economic prosperity in the RE, FE, and GMM estimations, both with and without the interactive term.

Rahman (2021) focused international commerce, economic growth and energy consumption in the BRICS and ASEAN countries. The dynamic link between energy consumption, international trade, FDI, and economic growth was explored from 1990 to 2017 for a panel of ASEAN and BRICS countries using a multivariate approach. For empirical investigation, the panel cointegration test, panel quantile regression, and heterogeneous panel

causality test are used. The findings indicate that the variables are stable in the long run. International commerce, energy consumption, capital accumulation, and FDI all have a long-term positive and significant influence on these countries' economic growth. Zheng and Tian (2021) studied the contribution of ocean trade to national economic growth in China. Measuring the economic impact of ocean trade is critical for marine economy policy. The findings indicate that while ocean trade has been a significant driver of China's economic growth, its contribution has been overstated by the gross value of trade. The analysis concluded with specific policy recommendations for advancing China's ocean economy's sustainable development.

Additionally, Udeagha and Ngepah (2021) studied the influence of trade openness on South Africa's economic growth. The association between economic growth and trade openness in South Africa from 1960 to 2016 was re-examined in this study. By using a newly developed Nonlinear Autoregressive Distributed Lags (NARDL) method. Findings indicate that trade openness has asymmetric impacts on economic growth in the short and long term. These findings have significant policy implications. Finally, Khobai and Moyo (2021) examined the effect of trade openness on industry performance in selected SADC countries. The Pooled Mean Group estimator was used to analyze data from 1990 to 2017. The findings indicate that trade openness has a positive impact on industrial efficiency in general.

Generally, this thesis analyzed the ideas, opinions and concepts of past studies and also critically investigated economic development and international trade, these research have provided a different effect of FDI on economic progress of the host countries, and the literature signifies that there is mostly a positive relationship between economic growth and international trade.

2.1.2 FDI and Economic Growth

Foreign direct investment is important for emerging countries economic development. FDI promotes technology transfer, increases competitiveness in the domestic input market, and results in the development of human resources. Profits from FDI also help the hosting country's corporate tax revenue. FDI has established itself as one of the most successful

methods of attracting external capital. The implementation of this methodology has also become a key element of capital accumulation in developing countries across the world.

However, Liu, Shu and Sinclair (2010) evaluated the influence of FDI and trade in Asian countries' economic development. Utilizing a multivariate causality test within the context of a vector error correction model (VECM), the relationship between export, FDI, import, and economic development in nine Asian countries was investigated in this paper. The research indicate that is a bidirectional causal link between FDI inflow, trade, inward Mergers and Acquisitions (M&A), and growth for the majority of the sample nations. M&A, growth, and trade all have a unidirectional causal connection in the outward direction. These results illustrate that export expansion, inward mergers and acquisitions, FDI inflows, and import liberalization all contribute significantly to Asian countries' growth processes. Lee (2010) analyzed how South Korea's multinational companies are influenced by the destination of FDI. The paper classified the hosting countries into the developed and the less developed countries. The study found that jobs and capital intensity are significant destinations. The study shown that FDI in less-developed countries is negatively related to the employment and capital intensity of a business. However, FDI does not seem to matter in developing countries. These findings may mean that Korean FDI is moving production lines to foreign associated countries and that FDI is transferring to developed countries to expand markets.

Thu, Wiboonchutikula and Tubtimtong (2010) examined the effect of FDI on Vietnam's economic development. Between 1995 and 2006, this study studied the effect of FDIs on economic growth in Vietnam using a panel data model encompassing 61 provinces. The study indicated that FDI considerably and favorably helps to Vietnam's growth by increasing capital stock. However, Bode and Nunnenkamp (2011) analyzed the influence of FDI on the per capita income and development of U.S. states since the mid-1970s. FDI's quantitative and qualitative characteristics, as well as its effects on per capita income and growth, can be studied using a Markov chain method. The empirical evidence indicates that employment-intensive financial development in rich countries has led to economic growth, while capital-intensive financial development in poorer countries does not. As a result, FDI appeared to be linked to a weaker degree of convergence between the US states. Whether US manufacturing or other sectors have received foreign direct investment is less relevant.

Iyer, Rambaldi, and Tang (2011) studied how FDI and trade impact the growth of Australia? The paper studied the influence of trade and FDI on Australia, a small but highly open economy that has recently outperformed the majority of OECD countries. Five outward-directed investment channels were simulated in the study: foreign portfolio, FDI, exports, imports and other foreign investments. To identify persistent outward-oriented channels, a cointegrated vector autoregressive model is defined in conjunction with a robust Granger non causality test. It is discovered that imports and foreign direct investment have a long-run effect on growth. Imports have roughly three times the economic impact of foreign direct investment.

Kotrajaras, Tubtimtong and Wiboonchutikula (2011) examined the impact of FDI on East Asia's economic growth. The article discussed the effect of FDI in groups of 15 East Asian countries with an economic development degree and uses panel data analysis along with co-integration approaches. The findings indicate that FDI's beneficial effects on East Asian countries are contingent on several factors, most notably the hosting countries economic situation host country's economic conditions, such as demand growth in effective macroeconomic policies, improved governance, institutional development, and financial markets. Over the past two decades, FDI in East Asian countries has increased rapidly and a number of studies have shown that it has important ties to economic development. In addition, countries of East Asian must increase their investment in fundamental infrastructure, production of human resources and foreign trade and investment facilities.

Dash and Sharma (2011) studied FDI, growth dynamic and trade: new evidence from the post-reform India by using Granger Causality test. The purpose of this article shown that is twofold: first, to examine the literature on the correlation exist in trade, economic growth, and FDI; and second, to conduct an experimental investigation of the related between these variables. Despite the plethora of studies studying the relationship between these variables, the debate regarding the direction of causality is far from resolved. The findings demonstrated a bidirectional causal link between economic growth and FDI (two-way feedback). Simultaneously, there is unidirectional causality. Moudatsou and Kyrkilis (2011) researched the causality relationship economic growth and FDI in Association of Southeast Asian Nations (ASEAN) and Europe Union (EU) by looking at a panel data from 1970 to

2003. They pointed to identify the correlation between FDI inward and economic expansion. This article concludes three alternative scenarios: 1) growth-driven FDI, in which host-country growth attracts FDI; 2) FDI-led growth, in which FDI accelerates host-country growth; and 3) causal relationships with a two-way flow. The following sections discuss empirical findings from heterogeneous panel analysis. The data for EU nations verify the GDP-FDI growth-driven FDI theory in the panel. In ASEAN countries such as Indonesia and Thailand, the causal link between GDP per capita and FDI is bidirectional. However, in the case of Singapore and the Philippines, FDI growth is regulated by the host nation. The outcomes are determined by the direction and region.

Doytch and Eren (2012) examined institutional factors affecting sectoral FDI in Eastern European and Central Asian countries. Using a generalized dynamic system method of moments applied to a wide range of time series was study twenty-one countries from 1994 to 2008. The study analyzed determinants of the sectoral distribution of FDI for Eastern European and Central Asian foreign direct investment, with an emphasis on investment and the state of democracy. The study found that the nation's human capital monitoring has a positive impact on foreign direct investment (FDI) and on the nation's democracy, which benefits FDI in agriculture and development. In addition, foreign direct investment (FDI) services are attracted by educated labor, while FDI is attracted to other sectors by inexpensive labor. FDIs are additionally beneficial for natural resources in the agricultural and manufacturing sectors.

Arısoy (2012) examined the effect of FDI on total factor productivity and economic growth in Turkey. The main aim of this article was to estimate foreign direct investment's contribution to aggregate growth and whether FDI had an effect on Turkey's overall output factor over the 1960-2005 period using aggregate production functions. This article argued that spillovers and physical capital accumulation are two key channels by which FDI can affect economic growth in the host country. It also aimed to classify the FDI, total factor productivity, and economic growth and then to assess various channels by using recent econometric techniques linked to the TFP. The empirical findings suggest that TFP and development by capital investment and technical spillovers contributes positively.

Furthermore, Zheng (2013) observed the impact of economic development and location on the variation of inward Indian FDI. A panel dataset is employed at the aggregate country level, and the analysis is carried out using the GLS model. The findings show that patterns of Indian foreign direct investment differ over time, according to India's economic and structural transformations. The trends vary even among the groups in their countries according to their economic growth and their geographical position compared to India. The desired patterns for the Indian FDI influx are decided not only by the country of origin and destination, but also by the country's endowment pattern. The Indian government must create selected FDI policies in order to boost economic growth. Belloumi (2013) studied the association between FDI, trade and economic development in Tunisia, by applying the bounds testing (ARDL) approach to cointegration at this period from 1970 to 2008. The findings shown that is a positive correlation between trade openness, economic progress, and FDI in host countries has been a central issue in economic research for decades and has reawakened interest in recent years. the data imply that there is no significant Granger causation in the short term between the variables. Tunisia's results may be expanded and compared to those of other developing countries that have had comparable experiences with foreign direct investment and trade liberalization.

Moreover, Angelopoulou and Liargovas (2014) empirically examined the connection between FDI and economic growth, undertaking a panel data study over a 20-year period (1989-2008) in three separate country groups, EU members , and countries in the process of joining the Euro. In contrast to theoretical studies that suggest that FDI inflows boost economic growth, the results didn’t find a significant causality relationship between economic growth and FDI. Awosusi and Awolusi (2014) investigated Nigeria's FDA, economic growth and technology. This was accomplished through the use of time series data spanning the years 1970 to 2010. The purpose of this study was to investigate the long-run equilibrium link between numerous international factors and economic growth, as well as the short-run impact of FDI inflows economic growth and trade to Nigeria. The influence of inward FDI, trade, and economic growth on foreign technology transfer to Nigeria was also evaluated in the short term using the Granger Causality test, which is based on the Vector

Error-Correction Model. The result established a unidirectional or bidirectional causal relationship among variables for the country in the short term.

Okada and Samreth (2014) based impact corruption affect the economic growth and FDI. The study investigated the influence of foreign direct investment (FDI) on economic development in 130 nations using by OLS test, taking into consideration the absorptive effect of corruption in each country. While FDI does not enhance economic development in and of itself, the estimate results indicate that it has a substantial effect on economic growth when the interaction term between FDI and corruption is added. When corruption is considered, FDI benefits economic growth, but has a detrimental effect when corruption is below a certain threshold. According to Suliman and Elian (2014) while they were observing the causalities of FDI, economic growth and financial development representatives in both the equity and bank lending sectors. On their study, they used a structural Cointegration model with a mechanism for vector correction to test the model's short-term dynamics. The results indicated that the FDI's positive effect on economic growth is important to the evolved financial markets and represent the capacity of host countries to become more effective. In addition, it gave additional substance to the notion that a nation has a well-established financial market.

Additionally, Mukaramah-Harun, Mat and Zalina-Zainal (2015) attempted to look at foreign direct investment (FDI) relationships with income inequality, unlike many other traditional studies that look at the relationship between growth and income inequality to understand this phenomenon. Since the 1990s, Malaysia has had a significant source of economic development, bringing the expertise required for economic growth to capital investment, technology management. FDI expanded nearly thirty-fold in the 1970s until the 2000s. The study found that FDI expansion adversely influenced the distribution of income through labor classes, where the highly low or unqualified income inequality has increased. It also means that the composition of the FDI variations influence the distribution of labor revenue. Due to the apparent magnitude variations in the effects of different FDI elements, FDI allocations across sectors should be viewed as a possible policy vector for achieving income equality objectives. Seyoum, Wu and Lin (2015) examined the effect of global development and FDI on emerging African economies between 1970 and 2011. the research

takes into consideration the non-stationary and cross-sectional dependence of the data set. The bidirectional causal link between FDI and economic development proposed by GC was experimentally validated. Additionally, this causal relationship is inconsistent among the sample nations of the research. In Zambia, Ivory Coast, South Africa and Kenya, the research discovered unidirectional causality between GDP growth and FDI, as well as between FDI and GDP growth in Egypt, Gabon, and Mauritania. The connection between the variables has remained stable.

Furthermore, Kisswani, Kein and Shetty (2015) addressed the influence of inflows of FDI on Estonia's real GDP. The research utilized by cointegration method, FDI is thought to be a significant factor promoting and stimulating the economic development of an economy over the years. The finding shown that FDI and real GDP are correlated, so variables have a long relationship, as they will not randomly deviate from each other and the long-term equilibrium direction deviation is corrected. The findings also indicated that FDI can be very useful for Estonia and it is important to investigate whether these findings are primarily focused on the high share of FDIs in the banking sector and/or on the large proportion of FDI in high income countries. On the other hand, Hussain and Hussain (2016) explored determinants of FDI in Pakistan and China's crowding out FDI inflows in Pakistan. The ARDL bound test method was used to analyze annual data from 1980 to 2014. China's size, inward FDI, and direct investment into Pakistan all have a major and beneficial effect on Pakistan's FDI inflows. Additionally, all domestic characteristics such as Pakistan's market size, openness to trade, and human capital have had a major and favorable effect on FDI inflows. The infrastructure's impact is both negative and significant. The results reinforced conventional knowledge that foreign investment attracts foreign investment in a GDP-growing country because it would contribute to increased demand for goods in the future. Investors are also satisfied with a more liberalized economy. Human capital investment also plays an important role in improving foreign investment flows.

In addition, Ali and Asgher (2016) addressed the role of FDI on economic development. This paper explored the key role of FDI on economic growth in the field, i.e. agriculture, manufacturing and services. Empirical research used five Asian countries panel data from 2000-2015. The Robust Standard Error Model is used, this study shown that the scale of FDI

only have a substantial significant and positive impact on economic growth in agriculture and manufacturing industries. The study results showed that the FDI has the highest potential to improve economic growth in comparison with other sectors. The agricultural sector influence is tiny, but the impact of the service sector is insignificant.

Furthermore, Dar, Bhatti and Muhammad (2016) observed the linkage about economic increase and FDI in Pakistan. This paper also explored the preposition by using domestic investments, infrastructures, human resources and organizations as control variables, using sector-specific FDI and GDP as part of the Vector Error Correction Model (VECM). In this regard, Pakistan's economy is classified as primary, secondary, and tertiary. Additionally, the infrastructure and institutional indexes are extracted using Principal Component Analysis (PCA). While the panel technique allowed for both long- and short-run correlations between FDI and GDP, sectorally prudent connections are problematic. Between FDI in the primary sector and GDP, there was only a short run link. Additionally, there is no spillover between the primary, secondary, and postsecondary sectors in Pakistan. Saini, Madan and Batra (2017) explored the relationship between Indian export growth and FDI. It explored the influence of FDI on export growth in India by using co-integration statics and using annual data series 1991–2012. The findings supported the hypothesis that exports multiply through FDI in the long run. In that sense, this paper measured the effects on export promotion of FDI inflows. However according to causality test studies this is a bi-directional relationship that implies that foreign direct investment and export are mutually motivating variables. India's new economic policies have been more constant than ever since 1991 in foreign investment. Carbonell and Werner (2018) explained that FDI may create economic growth in a Spain. The research utilizes GETS model between 1984 and 2010. The study tries to close these gaps by examining whether FDI boosted growth in Spain, one of the largest recipients of FDI, whose GDP growth exceeded the norm but went unrecognized. FDI increased substantially, and Spain created the ideal environment for FDI to have the growth-enhancing effect predicted. The research puts a variety of relevant explanatory variables against one another, including the undervalued importance of bank loans in the real economy. The conclusions are unequivocal: there is no evidence that FDI boosts economic expansion in favorable Spanish conditions. Additionally, it is concluded that Spain's participation in the

EU and the Eurozone had no beneficial effect on growth. The results imply that economic approach must be fundamentally rethought. According Opoku, Ibrahim and Sare (2019) studied sectoral impacts, FDI and economic growth in Africa. The study used generalized method of moments in Africa. The research found that, while FDI boosts economic development positively and unconditionally, its growth-promoting effect becomes fake when conditional sectoral effects are considered. The findings concluded that FDI had a significant pass-through effect solely on the agriculture and service sectors, based on the channels of expression.

According to Hayat (2019) economic development, institutional quality and FDI were all examined. This paper examined the direct influence of institutional quality on economic growth and the indirect effect of institutional quality on economic growth via improved FDI-induced economic development using a bigger dataset of 104 countries and dynamic panel data using the GMM estimation technique. FDI inflows and institutional quality both contribute to economic growth, as proven in this study. However, FDI-driven development has primarily occurred in low-income and middle-income countries. The study found that improving institutional quality in these nations could promote FDI-led economic progress. A notable studying of this research was that FDI has been shown to impede economic development in high-income nations. The findings are strong and consistent when considering specific institutional quality measures and endogeneity.

Ibrahim, Adam and Sare (2019) examined networking for FDI in African countries. Using a panel of data from 46 countries in Sub-Saharan Africa from 1980 to 2016. This study focused on identifying the factors that lead to FDI inflows, and the focus was on the ICT and the environments of the financial sector. The result that FDI driver's studies in Africa did not analyze thoroughly whether recent developments could have a role in attracting FDI in the Continent's ICT infrastructure and financial markets. Nevertheless, C. Lee (2019) investigated FDI in ASEAN. FDI is a long-term investment in a country by corporations incorporated in another country. In comparison to portfolio investment, typically short-term and not managed by a company, FDI includes multinational companies (MNCs) forming subsidiaries or joint ventures in a foreign country and thus helps the host country build employment and boost economic growth. Due to its beneficial economic

effects, many governments, particularly developing countries, have made great efforts to attract FDI through incentives such as tax cuts. In this respect, the ASEAN countries are no exception. FDI is important to the ASEAN economy and therefore will remain to be so despite certain obstacles. They concluded that FDI has a positive impact SSA country.

Dorakh (2020) observed the FDI analysis across the European member states, using an improved gravity model (Institute gravity parameters) from 1991 to 2017 for 39 host and home countries, with a particular emphasis on the new Member States EU. This research showing that EU membership is a significant predictor of FDI. The study analyzed determinants impacting foreign direct investment inflows. This paper verified that EU membership has a positive and impact on FDI and, on average, FDI inflows increased by approximately 23 per cent between 1991 and 2017. Following EU enlargement, Member countries were given major share of FDI into new EU member states and a lower proportion of FDI from non-EU countries. Urgessa (2020) investigated the influence of FDI on Ethiopia's economic growth by analyzing annual time series data from 1982 to 2018. This objective was accomplished through the use of descriptive and econometric studies. They was evaluated using the Ordinary Least Squares (OLS) approach model. FDI has a significant positive effect on Ethiopia's economic development, according to empirical evidence. Last but not least, Asongu, Nnanna and Acha-anyi (2020) analyzed trade openness in 25 SS Africa countries. The research using simultaneous openness hypothesis tests from 1980 to 2014. The findings indicated that imports of goods and services have a moderating influence on FDI, resulting in net positive impact on GDP growth. Trade exports act as a brake on FDI, resulting in overall beneficial effects on GDP growth.

In a summary, the literature indicates that having FDI in a developing country enables human capital, and the employment as well as the implementation of new business strategies in terms of management and marketing, as well as the reduction of the budget deficit. Therefore this thesis will contribute the body of knowledge by observing the influence of FDI and international trade on Ethiopia’s economic growth.

Table 1. Literature Review

Authors(s)	Country	Methodology	Variables	Findings
Awokuse (2008)	Argentina, Colombia, and Peru	Granger causality test	T & GDP	T+ significant on GDP
Dar and Amirkhalkhali (2010)	OECD countries	Random coefficients method	TOP & GDP	Significant relationship
Wong (2010)	Korea & Japan	Johansen's co-integration approach	RGDP, GDP per capita & T	ITU decreases RGDP, increase in OP decreases T
Santos-Paulino (2011)	India, South Africa, Brazil & China	System GMM estimator	XP, TS & D	Significant variations exist between countries in terms of XP
Klasra (2011)	Pakistan & Turkey	ARDL	TOP, FDI & ED	A two-way causal connection with TOP and FDIs
Liu and Xin (2011)	China	CES model	X & M	There's increase in X & Decrease in M
Hye (2012)	Pakistan	ARDL & OLS	TL, HC & GDP	TL – impact on GDP

Tekin (2012)	Africa least development countries	Granger Causality test	FAID & GDP	Insignificant relationship
Nasreen and Anwar (2014)	15 Asian nations	Granger causality test	TOP, GDP & energy consumption	Bidirectional relationship
Ulaşan (2014)	Turkey	GMM test	TOP & GDP	Insignificant relationship
Jouini (2014)	GCC countries	PMG test	IT & GDP	IT + on GDP
Sakyi, Villaverde and Maza (2014)	115 developing nations	Panel cointegration approaches	GDP & TOP	TOP + on income level
Chang and Mendy (2014)	36 African countries	Panel regressions.	TOP & GP	TOP + on GDP
Menyah, Nazlioglu and Wolde-Rufael (2014)	Africa	Panel bootstrapped approach	TOP & GDP	Low significant relationship
Asghar and Hussain (2014)	developing countries	Panel cointegration test	FDI, TOP & GDP	bidirectional causal relationship
Brueckner and Lederman (2015)	Sub-Saharan Africa	Instrumental variables approach	TOP & GDP	TOP + on GDP
Were (2015)	African countries	Regression analysis	T & GDP	T + on GDP
Fetahi-Vehapi, Sadiku and Petkovski (2015)	Southeast European	GMM	TOP & GDP	TOP + on GDP
Modeste (2016)	Guyana	time series	HC, TL, MT & X	MTR – impact on GDP. HC & X + impact on GDP
Majeed & Malik (2016)	147 nations	The Simultaneous Technique of Estimate	Commerce & GDP	bidirectional relationship

Sakyi & Egyir (2017)	45 African states	GMM estimator	X, FDI & GDP	X & FDI + influence on GDP
Ha and Tran (2017)	Vietnam	Quantitative Regression Approach	Employment & Trade	Trade + linkage on employment
Keho (2017)	Ivory Coast	ARDL & Granger Causality	TOP & GDP	TOP+ on GDP
Zahonogo (2017)	Sub-Saharan Africa	Dynamic growth model	T & GDP	Nonlinear
Gnangnon (2018)	150 nations	Panel data	MTL & GDP	MTL + link on GDP
Kalai and Zghidi (2019)	15 MENA countries	ARDL	FDI & GDP	unidirectional link off FDI and GDP
Gnangnon (2019)	92 developing countries	Random Effects Estimators	TR & TOP	TR + on TOP
Wei and Chen (2019)	China	Hausman test rule	FTI, GDP	FTI + on GDP
Vidya, Prabheesh, and Sirowa (2020)	50 developed & developing nations	Cross-Country Network Analysis	T & GDP	There's T gap between developed and developing countries
Kpomblekou and Wonyra (2020)	WAEMU	Fixed Effects & Serial Correlation	IT & GDP	IT + on GDP
Malefane (2020)	Botswana	ARDL	TOP, X, M & GDP	TOP + on GDP
Helen and Afolabi (2021)	Nigeria	OLS	M, X & GDP	X + on GDP, M is insignificant on GDP

Zheng and Tian (2021)	China	IO model	T & GDP	Ocean trade has a significant on GDP
Rahman (2021)	BRICS and ASEAN countries	Panel cointegration test	FDI, IT & GDP	FDI & IT + significant on GDP
Udeagha and Ngepah (2021)	South Africa	NARDL	TOP & FDI	TOP has asymmetrical effects on GDP
Farag, Ab-Rahim, and Mohd-Kamal (2021)	Libya	VECM	FDI & GDP	Relationship between FDI and GDP
Abendin and Duan (2021)	53 Africa countries	GMM	IT& GDP	IT + on GDP
Khobai and Moyo (2021)	SADC nations	Pooled Mean Group estimator	TOP & GDP	TOP + on GDP
Liu, Shu and Sinclair (2010)	Nine Asian nations	VECM	FDI, M, X, GDP, M & A	two-way connections
Thu, Wiboonchutikula and Tubtimtong (2010)	Vietnam	panel data model	FDI & GDP	FDI + on GDP
Iyer, Rambaldi, and Tang (2011)	Australia	ARDL	M, X, FDI	M & FDI has threefold, X is insignificant
Lee (2010)	South Korean	simple econometric model	FDI & GDP	FDI +
Kotrajaras, Tubtimtong and Wiboonchutikula (2011)	15 East Asian nations	panel data analysis	FDI & GDP	FDI + impact on GDP
Dash and Sharma (2011)	India	Granger Causality	FDI, T & GDP	bidirectional connection

				between FDI and GDP
Mudatsou and Kyrkilis (2011)	European Union (EU) and the Southeast Asian Nations	panel data	FDI & GDP	FDI + significant link between GDP
Doytch and Eren (2012)	Central Asian nations and Eastern Europe	GMM estimator	FDI & L	FDI + impact on L
Arısoy (2012)	Turkey	Granger Causality	FDP, GDP & TFP	FDP + on TFP
Zheng (2013)	Indian	GLS model	FDI & GDP	FDI is significant on GDP
Belloumi (2013)	Tunisia	ARDL	FDI, TOP & GDP	Insignificant relationship
Angelopoulou and Liargovas (2014)	Indian	panel data	FDI & GDP	FDI insignificant Relation on GDP
Awosusi and Awolusi (2014)	Nigeria	Vector Error Correction Model	FDI, T & GDP	unidirectional and bidirectional relationship
Okada and Samreth (2014)	130 countries	OLS	FDI & GDP	FDI + impact on GDP
Suliman and Elian (2014)	India	Vector Correction Mechanism	FDI & GDP	FDI + on GDP
Mukaramah-Harun, Mat and Zalina-Zainal (2015)	Malaysia	SAM Framework	FDI & ID	Adversary relationship of FDI on ID

Seyoum, Wu and Lin (2015)	African	Panel econometric approaches	FDI & GDP growth	unidirectional causation between FDI and GDP growth
Kisswani, Kein and Shetty (2015)	Estonia	Cointegration method	RGDP & FDI	FDI + impact on RGDP
Ali and Asgher (2016)	five-countries	Robust Standard Error model	FDI & GDP	FDI + on GDP
Hussain and Hussain (2016)	Pakistan and China	ARDL	HC, FDI & TOP	FDI has + impact on TOP
Dar, Bhatti and Muhammad (2016)	Pakistan	Vector Error Correction Model (VECM)	FDI & GDP	FDI + impact on GDP
Sokolov-Mladenović, Milovančević and Mladenović (2017)	28 countries European Union	computational intelligence method	TOP & GDP	TOP + on GDP
Saini, Madan and Batra (2017)	Indian	co-integration statics across	X & FDI	Bidirectional relationship X and FDI
Carbonell and Werner (2018)	Spain	GETS methodology	FDI & GROWTH	FDI has + impact on growth
Opoku, Ibrahim and Sare (2019)	Africa	GMM method	FDI & GDP	FDI has + significant on GDP
Hayat (2019)	104 countries	GMM method	FDI & GDP	FDI + impact on GDP
Ibrahim, Adam and Sare (2019)	Africa	GMM	FDI & GDP TOP	FDI + on GDP

Dorakh (2020)	EU	Institute gravity parameters	FDI & GDP	FDI + ON GDP
Asongu, Nnanna and Acha-anyi (2020)	25 Sub-Saharan African countries	GMM estimator	GDP, X, FDI & M	FDI, X, M + on GDP
Urgessa (2020)	Ethiopia	OLS test	FDI & GDP	FDI + on GDP

Findings: *(ITU) International Trade Uncertainty, (OP) Oil Price, (T) Trade, (XP) Export Productivity, (X) Export, (M) Import*

Methodology: *(GMM) Generalized Method of Moments estimator, (ARDL) Autoregressive Distributed Lags, (CES) Constant Elasticity of Substitution, (OLS) Ordinary Least Square, (SEM) Structural Equation Modelling, (NARDL) Non-Linear Distributed Lags Approach, (IO) Input Output model.*

Variables: *(RGDP) Real GDP, (XP) Export Productivity, (TS) Trade Specialization, (D) Development, (M) Imports, (FDI) foreign direct investment, (L) Labor, (ID) income distribution, (HC) human capital, human resources(HR),(TOP) trade opness, (TL) Trade Liberalization, (HC) Human Capital, (MTR) Import Tariff Rate (TR) Tax Reform, (FTI) Foreign Trade Improvement. (*FAID) Foreign Aid.

3. OVERVIEW OF ETHIOPIA ECONOMIC PERFORMANCE

Ethiopia is a large, landlocked country with a diversified population. Ethiopia, which is located in the Horn of Africa, covers an area of 1.1 million square kilometers. Its biophysical environment is diverse, with marked variances in climate, soil qualities, vegetation types, agricultural potential, biodiversity, and water resources, as well as a difficult topography susceptible to the effects of climate change. Ethiopia is a country of diverse nations and peoples, with a current anticipated total population of 114 million people in 2020. Ethiopia's geographic location positions it strategically as a gateway to the Horn of Africa, adjacent to the Middle East and its markets. Ethiopia is landlocked, bordering Sudan, Somalia, Kenya, Eretria and South Sudan, and for the last decades has relied on neighboring Djibouti's primary port. Ethiopia, however, is scheduled to resume access to the Eritrean ports of Assab and Massawa as a result of the recent peace accord with Eritrea.

3.1 FDI and Economic Growth of Ethiopia

Prior to 1991, the investment climate was unmotivated in general, and foreign direct investment in particular. Political insecurity, worry about the future, and the nationalization of large businesses have all acted as significant impediments of FDI. Recognizing the value of FDI, the government attempted to resurrect it in 1983 with the Joint Venture Proclamation. Incentives included a five-year tax holiday, duty exemption on export and imports, tariff immunity, benefit, and capital repatriation. However, the announcement did not succeed in attracting foreign investors. The government amended the 1983 proclamation in 1989 to allow for majority foreign participation in a number of industries. Additionally, it sought to increase investor rights. However, prolonged civil war and political instability further discouraged FDI at the time.

Political unrest became worse, eventually leading to the regime's overthrow in 1991 (Haile & Assefa, 2006). Following the EPRDF government's election victory in 1991, various policies were implemented. As one of the government's primary priorities, increasing the private sector's position in the economy, the privatization program began in 1994. Following the 1992 liberalization program, FDI began to play a role in the country. With the

exception of the two-year conflict with Eritrea from 1998 to 2000 and the 2005 and 2008 local election crises, all reforms, as well as the government's execution of investment guarantee programs and incentives, resulted in an increase in the percentage of inbound FDI, which interrupted the growing trend of FDI inflows, the reform initiatives have resulted in some positive changes (Geda, 2007). According to Ethiopian Investment Commission (2017) investment projects contributed differently in terms of capital expenditure and work development across industries. As a result, industrial and service businesses benefit the most. Ethiopia has been very effective in attracting greenfield FDI to the textile, food, and beverage, and tobacco industries, as well as to chemicals and pharmaceuticals and automotive. From 1992 to 2016, the manufacturing sector accounted for 45 percent of total projects, followed by real estate, machinery and equipment rental and consulting services 18%, agriculture 15%, electricity 7%, hotels 6%, education 2% percent, health 2%, tour operation, transportation, and communication 2%. The EIC (2019) African economies may obtain external funding from a variety of sources, including official development assistance (ODA), Public loans and private, foreign direct investment (FDI), remittances and portfolio equity investment. Additionally, it has become a vital source of technology transfer, access to management expertise, and a marketing network, as well as a significant driver of export trade. Inflows of foreign direct investment into African countries have increased significantly over the last two decades, owing to improved economic performance and increasing global demand for African goods. Ethiopia has been a significant recipient of FDI. Despite rapid economic growth since the early 2000s, Ethiopia only began to attract FDI in amounts commensurate with the country's economic size and growth output after 2012. Ethiopia's GDP, for example, grew at an incredible 10.3% on average between 2003 and 2011 - far faster than the continent's average annual growth rate of less than 3% over the previous decade (nearly 6%). Ethiopia had one of the fastest growing economies in the Africa, and even the global financial crisis of 2008/9 and the subsequent collapse of global commodity prices had no impact on Ethiopia's growth trajectory. The country's economy benefited from the impressive growth results. Ethiopia's per capita income more than doubled over the same time, although from a very low starting point. The country's headcount poverty has decreased by more than half, well ahead of the Millennium Development Goals (MDGs) deadline of 2015. These gains were facilitated by sustained public investment in agriculture, education,

health, and road growth, as well as a change in industrial policy toward export-led industrialization rooted in the manufacturing sector and reliant on agricultural inputs.

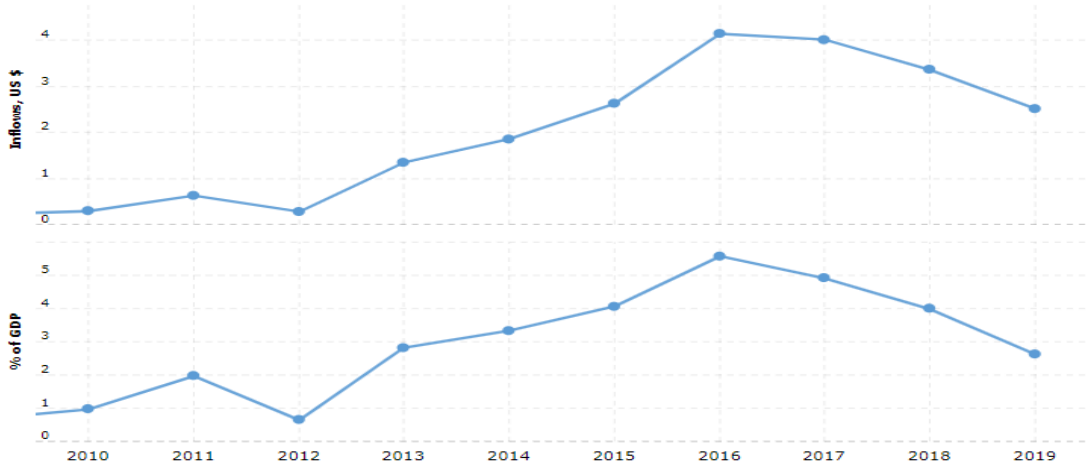


Figure 1. Ethiopia Foreign Direct Investment 2010-2019 (Billion USD)

Source: (World Bank)

Figure 1 shows that Ethiopia FDI inflows has increased 2.63 billion US dollar from 2015 to 4.14 billion US dollar in 2016, which means the FDI has increased 57.73% in 2016, On the other hand, FDI has declined 3.36 billion US dollar from 2018 to 2.52 billion US dollar in 2019, this implies that the FDI has declined 25.12% in 2019.

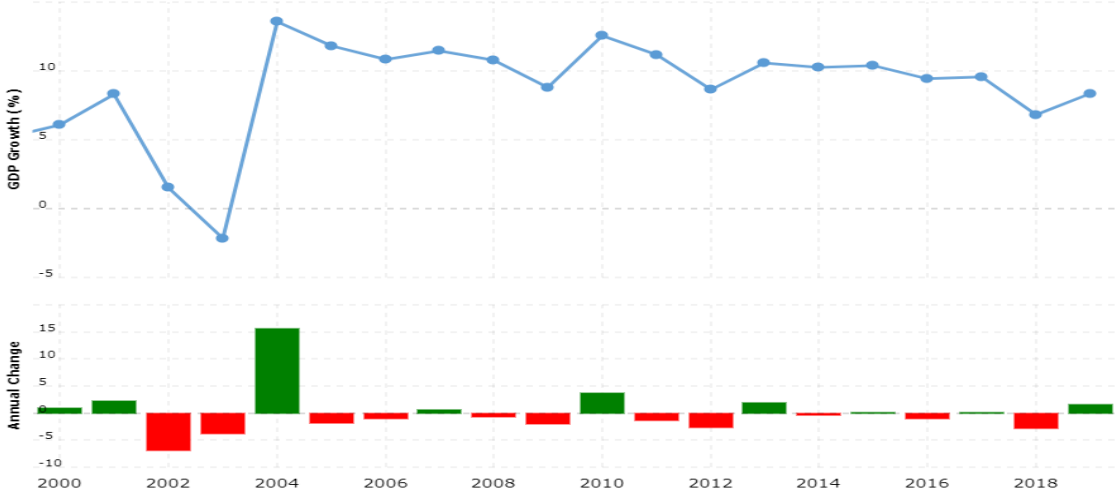


Figure 2. GDP growth annual change in Ethiopia 2000-2019

Source: (World Bank)

Ethiopia GDP growth has increased 6.82% from 2018 to 8.36% in 2019, which means the GDP growth has increased 1.55% in 2019, Ethiopia is one of Africa's fastest developing economies. The growth of the service industry which followed the development of agriculture is the main source of economic development. From demand-side growth in Ethiopia, consumption was the main driver of growth. Agriculture, the main source of economic growth. From demand-side growth in Ethiopia, consumption was the main driver of growth.

3.2 International Trade of Ethiopia

Nevertheless, Ethiopia underwent trade liberalization after the fall of the Derg government. Prior to 1991, the United States was governed by communist and military governments. However, the post-1991 period saw the election of a civil government that initiated trade liberalization and implemented economic policies focused on the economy. Thus, Ethiopia implemented significant economic reforms in 1992, most notably by eliminating trade barriers (Menamo, 2014), International trade performance in Ethiopia has improved dramatically in recent years. PASDEP was at an all-time high in 2004. Apart from lowering tariffs on imports of raw materials and capital goods for the manufacturing sector, the government has implemented a number of export incentive programs (Yeshineh, 2016).The widening gap for exports and imports are partly due to increased demand for consumer and capital goods, as well as a variety of other services, due to Ethiopia's economic growth on the one side, and to the export sector's poor results, exacerbated by on the other hand, the decline in foreign commodity prices. In this regard, it is critical to note that Ethiopia's trades are centered on a few basic agricultural goods such as pulses, oilseeds, coffee, and semi-processed leather, in addition to the country's export destinations being exceedingly limited (National Planning Commission, 2016).

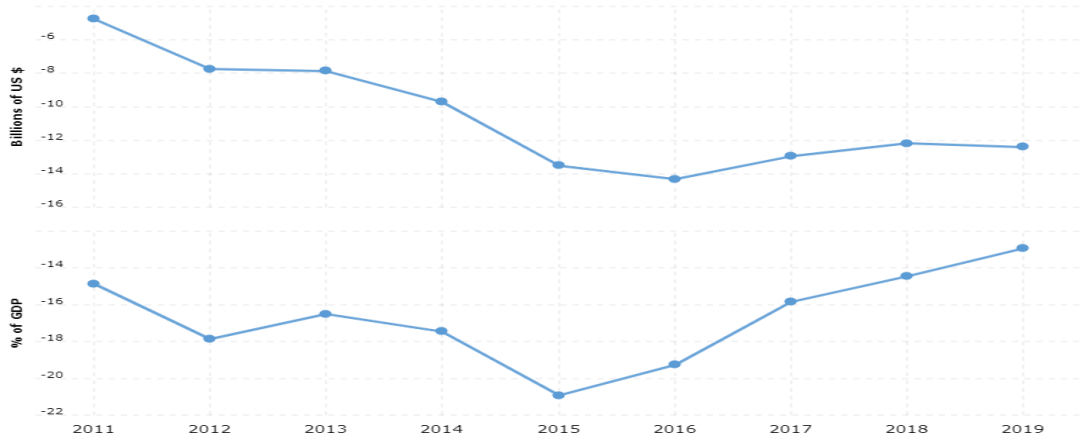


Figure 3. Ethiopia Trade Balance 2011-2019 (Billion USD)

Source: World Bank

Ethiopia trade deficit has improved -12.18 billion US dollar from 2018 to -12.41 billion US dollar in 2019, which means the trade balance has increased 1.86 % in 2019.

On the other hand. Exports are critical for African countries, even if they are little players on the global stage (Morrissey & Mold, 2006). The export is highly concentrated to a few agricultural commodities. Coffee remains Ethiopia's leading export commodity, accounting for 28.7 percent of total exports in 2018(National Bank of Ethiopia [NBE], 2020).Ethiopia's government has been attempting to boost exports to 22.5 percent of GDP by the end of the Growth and Transformation Plan II (GTPII) (Sawore 2016; National Planning Commission [NPC], 2016). Ethiopia's advantageous proximity to the Middle East and Europe provides a particular edge in terms of reaching profitable overseas markets. Additionally, Ethiopia has developed into a regional air transportation center as a result of Ethiopian Airlines' success. This enables the enhancement of export competitiveness in high-value horticulture products and tourism, as well as the expansion of trade and investment relations. Ethiopia may also benefit from the spillover benefits of regional integration through COMESA and IGAD. Ethiopia's financial industry is unable to provide competitive financial services on the scale required due to its small size, fragmentation, and lack of depth and breadth. Access to finance, in particular, is a significant constraint to expanding productive activities, particularly those of SMEs, and diversifying export options, such as global export value chains. Ethiopia, therefore, requires a financial system capable of effectively and efficiently facilitating private

sector investment from a variety of domestic and international sources, including the banking sector, capital markets, private equity funds, and institutional investors.

Ethiopia exports are almost entirely agricultural products. Coffee is the primary export; additional commodities include oilseeds, gold, khat, hides and skins and live animals. Manufacturing, particularly machinery and transportation equipment, and chemical products account for the lion's share of import value; food and fuels also contribute. Significant trading partners include China, India, Somalia and Saudi Arabia. Ethiopia has a negative balance of payments for a long period of time as a result of higher import expenditure than revenue from exports.

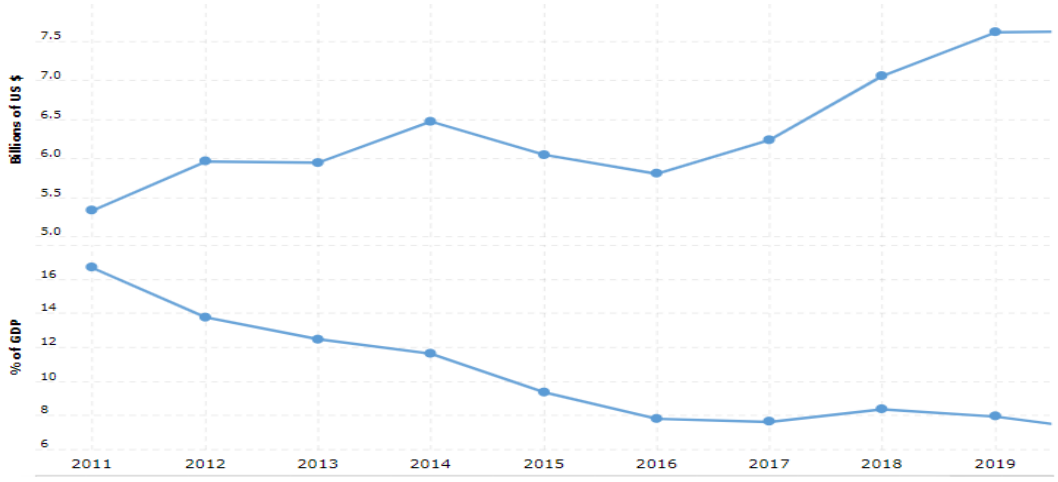


Figure 4. Ethiopia Exports 2011-2019 (Billion USD)

Source: World Bank

Figure 4 shows that Ethiopia’s export has increased 13.1% in 2017 from 6.24 billion USD to 7.06 billion USD in 2018 and to 7.62 billion USD in 2019. As well as the following figure 5 shows that Ethiopia’s import has increased from 19.24 billion USD in 2018 to 20.02 billion USD in 2019.

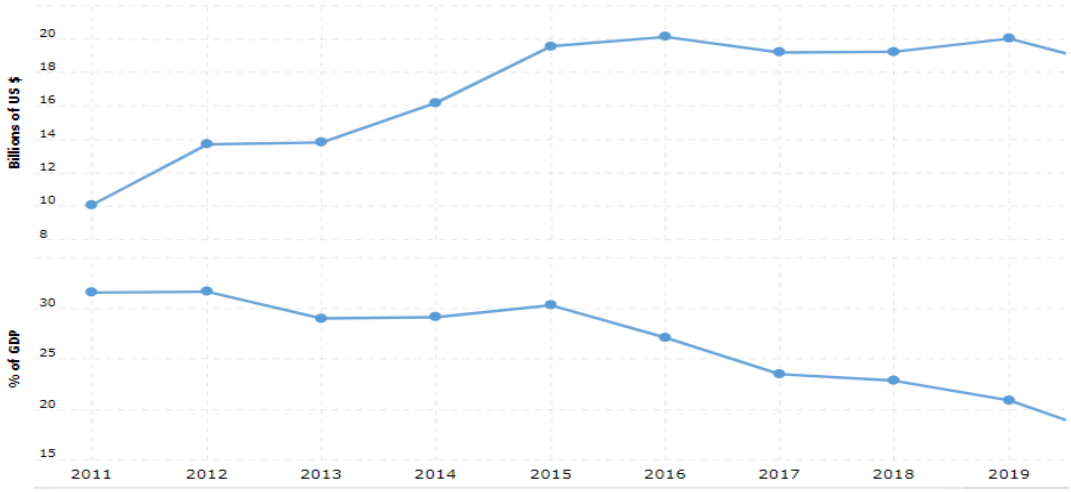


Figure 5. Ethiopia Imports 2011-2019 (Billion USD)

Source: World Bank

3.3 Trends of Agricultural Exports in Ethiopia

Ethiopia's agricultural sector reports that in 1986, the FAO and the Ethiopian government conducted the most comprehensive assessment of Ethiopia's environment, land, plants, forests, soils, water, and people. Agriculture had been driven into increasingly vulnerable land areas by population growth, limiting available fallow periods. Indeed, feudal and other forms of dependent land tenure, combined with everyday survival considerations, have compelled the rising highland people to till the land in unsustainable ways for generations. This unavoidably resulted in land degradation, as evidenced by excessive deforestation and soil erosion, as well as deteriorated water storage and flow regimes, hence reducing land's potential productivity. It had devolved into a downward spiral. These were losses of productive topsoil, which are largely irreversible given the time required to generate a ton of topsoil. Ethiopia's natural agricultural history was progressively fading, and as a result, the country's highlands were one of the most degraded biological zones in Africa, if not the world. Environmental conditions had deteriorated to the point where millions of people in some regions of the highlands were now barely living even during years of copious rainfall, while years of low rainfall threatened increased severity and scope of famines. Other highland places were degrading gradually, and it was just a matter of time before the deterioration spiral affected livelihoods in all of these locations. At the moment, and in the future, this deteriorating process posed a threat to millions of Ethiopians. It posed the greatest

long-term threat to human survival and posed the greatest obstacles to the Ethiopian people and government.

According to Ethiopia's coffee production opportunities, genetic diversity and good surroundings are two of the primary potential for Ethiopian coffee production, a production method based on agroforestry, globally recognized brands, a contemporary marketing strategy, favorable policy, and taking into account the cost of coffee (Kebede, 2012). Ethiopia's coffee sector has a promising future. The country benefits from an advantageous altitude, an ideal climate, low labor expenses, and fertile land. It is capable of producing and supplying good specialty coffee sustainably, with the capacity to produce all coffee varieties from the many world (Sette, 2012). Additional opportunities for Ethiopian coffee production include the commodity's high domestic and global demand, interest of the private sector with large promise for investment, and strong support from both administrations regional and federal (Tsegaye, 2017). Ethiopian coffee and Marketing and Tea Development Authority was reestablished in December 2015, following the House of Peoples' Representatives' approval of a proclamation with the purpose of enhancing the country's benefit from the industry. Ethiopian coffee is more vibrant and flavorful than other coffees. To preserve these characteristics, a well-developed and connected framework has been established that links coffee producers, processing facility owners, governmental organizations, and coffee processing (Workie, 2015). Ethiopian coffee production is restricted by a lack of competitiveness, insufficient infrastructure, and inadequate access to services, a low degree of value addition, and a dearth of technological transfer and research (Sette, 2012). Khat, a stimulant-containing plant chewed by humans, has been vying for cropland alongside coffee in recent years. Some smallholder coffee farmers have shifted away from coffee production in favor of khat cultivation, enticed by the higher pricing and higher yields associated with khat farming. Numerous farmers, particularly in the country's eastern region, have turned away from coffee cultivation and toward khat cultivation. Khat is a drought- and disease-resistant plant that can be harvested three to four times per year and provides farmers with a better yield than other cash crops such as coffee (Tolera & Gebermedin, 2015).

Ethiopia is Africa's largest consumer of coffee, as well as a major producer and exporter. Consumption's share of total production was significantly lower in the early years of the reform, decreasing from 65% in 1987 to 25% in 2003. The much lower domestic consumption shares of output in the country's increasing exports during that period as a result of exporter expansion following internal marketing liberalization. It has, however, been gradually growing since 2004 (David & Crentsil, 2013). Similarly, Francom (2018) Coffee consumption in Ethiopia is increasing in lockstep with the country's population increase, albeit slowly. A fascinating new phenomenon in terms of coffee consumption in Ethiopia's major towns is the proliferation of small roadside cafes offering coffee to passing customers. The little roadside vendors serve traditional coffee. They have sprung up and prospered in Ethiopia's major cities, fast gaining popularity among coffee lovers dissatisfied with rising coffee prices and the decreasing coffee's quality. Likewise traditional coffee shops, small area booths are not subject to VAT or home rent, which results in a substantially lower and more competitive cost of delivering coffee (Amamo, 2014). On the local market, coffee is primarily coffee that was destined for export via the Ethiopian Commodity Exchange (ECX) but was rejected due to non-compliance with ECX quality criteria. Local coffee, on the other hand, is typically more expensive than international Arabica coffee (Amamo, 2014). Coffee is vital to the Ethiopian community's cultural and social life. Ethiopia is one of the world's largest consumer of coffee, also ranking one of the first among coffee producing countries. Around half of the country's usual annual production of 200,000-250,000 tons is consumed. Coffee preparation and drinking is a uniquely Ethiopian cultural activity known as the coffee ceremony. Coffee is not a solitary beverage. It is a social cultural that should be shared with others. Sharing coffee with people establishes rapport and fosters community and friendship (Workie, 2015).

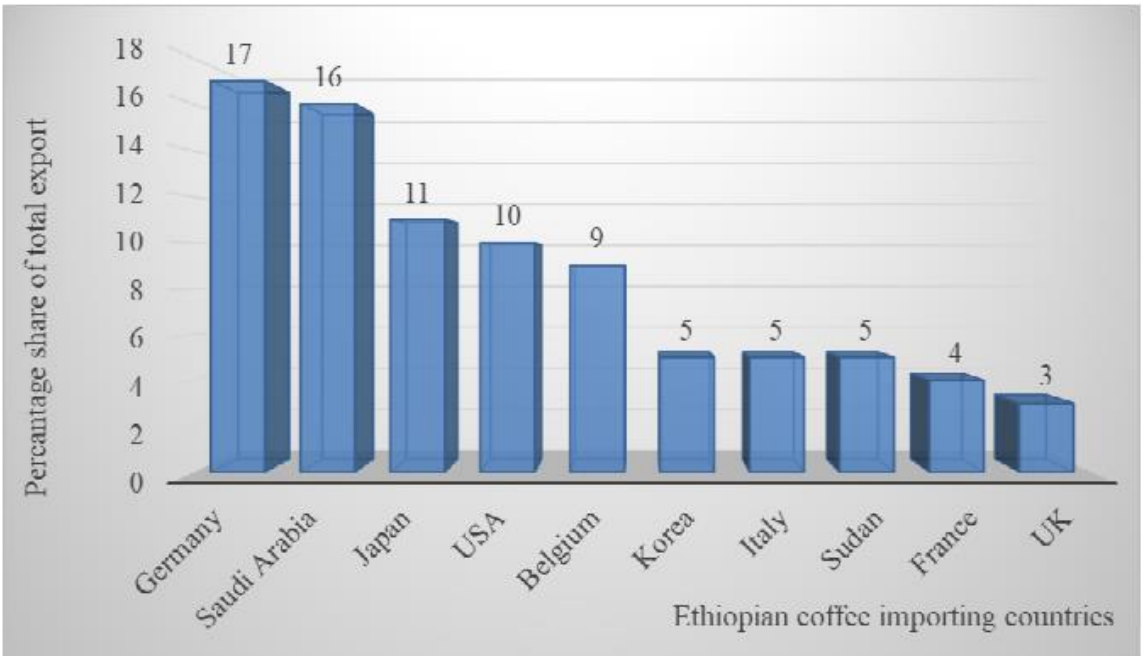


Figure 6. Ethiopian Coffee Importing Countries 2011-2019 (Billion USD)

Source: Francom, 2018 report.

Ethiopia exports and produces one of the best highland coffees in the global (Gebreselassie & Ludi, 2008). Total export earnings increased by 3% in 2018 over the same quarter last year, due to improvements in export revenues from coffee 19.1%, oilseeds 4.9 %, leather and leather products 27.7 %, fruits and vegetables 16 %, meat and meat products 10.1 %, flowers 8.1%, and other exports 35.1%. Earnings from coffee increased 19.1 percent year over year in the first quarter of 2018 to USD 215.6 million, owing to a 16.5 percent increase in export volume and a 2.2 percent increase in the international price. As a result, coffee's proportion of overall merchandise export earnings grew to 31.8 percent, up from 27.5% a year ago. Ethiopian coffee is traditionally purchased by countries such as Germany, France, Italy, Belgium, Sweden, Norway, Finland, Denmark, the United Kingdom, Switzerland, the United States of America, Taiwan, Saudi Arabia, Canada, Japan, South Korea, Australia and South Africa (Workie, 2015). Agricultural exports contributed 84 percent of overall exports in 2016/17, down from 86 percent in 2013/14. However, coffee exports increased their percentage of total exports from 30% in 2013/14 to 33% in 2016/17.

4. RESEARCH METHODOLOGY

This stage of the thesis explains the methodology for research, the data source and data form, the theoretical structure, the model specification, the methods used to analyze the data and the techniques employed. It also outlines how to create, evaluate and interpret the relevant methodology.

4.1 Data

Data in Ethiopia over the entire sampling era from 1990 to 2019.This research will use Ordinary Least Square (OLS) test, Granger Causality test and Johansen Cointegration to investigate the impact of FDI and international trade on economic growth by using current data. Data is obtained different sources from United Nations Statistics Division and United Nations Conference on Trade and Development.

Table 2. Main variables

Variable	Measurement	Expected Sign	Source
GDP	Gross domestic product (Current US$)		United Nation Conference
FDI	Foreign direct investment inflows (Current US$)	Positive	United Nations Conference on Trade and Development
Import	Import of goods and services (Current US$)	Negative	United Nation Statistics Division
Export	Export of goods and services (current US$)	Positive	United Nation Statistics Division
POP	Total population (Persons)	Positive	United Nations Statistics Division
INF	Inflation (Implicit Price Deflator)	Negative	United Nations Statistics Division

4.2 Theoretical Framework and Model specification

The Conceptual Framework is a system of concepts, beliefs, expectations, assumptions, and theories that supports and informs the research. The model incorporates various variables and their assumed relationships in order to represent the expectations. It is also used to create conceptual distinctions and to connect different ideas. Strong conceptual frameworks result in the achievement of the desired goal. It can be visualized graphically. As shown in figure 7, the conceptual model of the study. Independent variable is GDP, while dependent variable is FDI, import, export, population and inflation. The figure shows the effect of international trade and FDI on economic growth in Ethiopia.

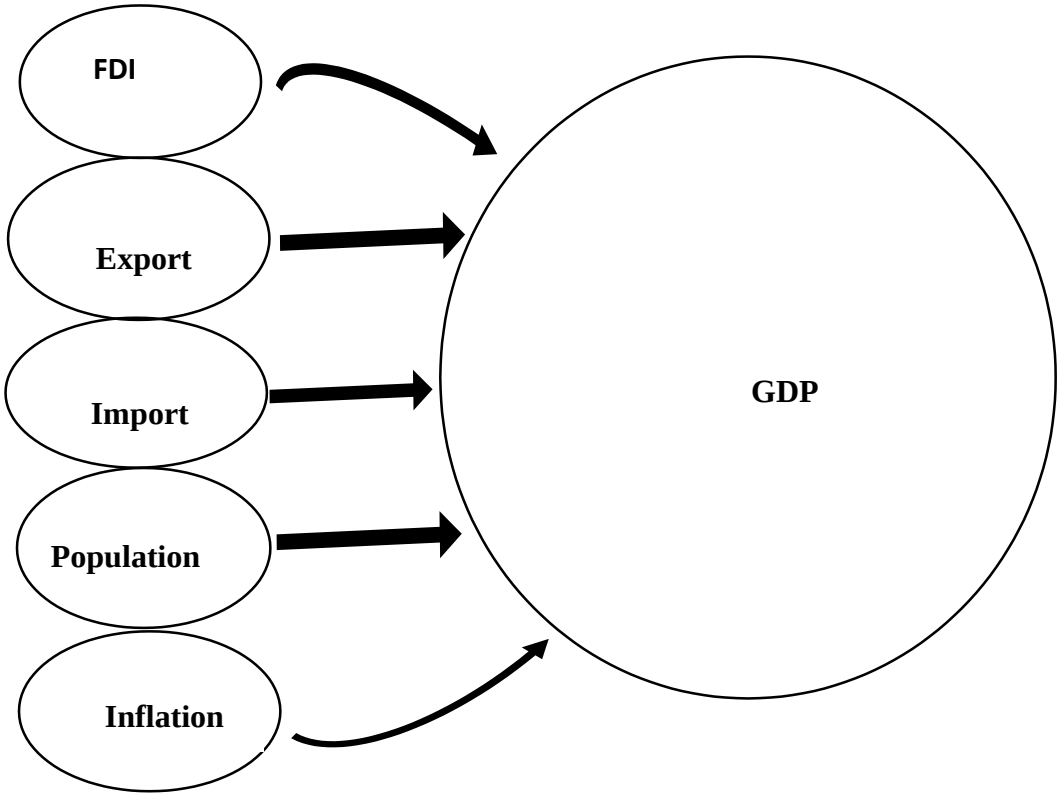


Figure 7. Conceptual Framework

The thesis is based on the Augmented Solow economic growth equation model, which seeks to show the effect of international trade and FDI on Ethiopia's economic development. Economic growth, as described by Solow, is a feature of the accumulation of labor expansion,

capital accumulation, and exogenous factors such as technological advances that increase the productivity of physical capital and labor. As a result, the following basic model specification is given:

$$Y = A * f(K, L) \quad (1)$$

The thesis employs a modified version of the Solow model to measure the effect of international trade and FDI on economic development in Ethiopia. By making a minor adjustment. The choice of variables is in the line with the choice made by other researchers (Bibi, Ahmad & Rashid, 2014), specifying the following empirical model as below: Equation (2) can be restated as following:

$$GDP_t = C_0 + \alpha_1 FDI_t + +\alpha_2 X_t + \alpha_3 M_t + \alpha_4 POP_t + \alpha_5 INF_t + \varepsilon_t \quad (2)$$

Where,

GDP is Gross Domestic Product

FDI is Foreign Direct Investment

X is export

M is import

POP is population

INF is inflation and

ε_t is error term.

4.3 Method of Estimation

4.3.1 Descriptive Statisitcs

Descriptive statistics reflect the basic characteristics of the outcomes in an experiment. Simple summaries and measurements of samples are given. Almost every

quantitative data analysis and simple graphical analysis is based on them. The descriptive analysis indicates the average, minimum and maximum.

Table 3. Descriptive Statistics

Variables	N	Std. Dev.	Mean	Min	Max	Skewness	Kurtosis
GDP	30	26.20	27.20	7.150	92.80	1.21	3.12
FDI	30	1,233.49	827.03	0.17	4.14	1.67	4.42
M	30	6,740.00	7.08	871.00	19.50	0.79	2.08
INF	30	22.59	72.83	42.01	108.83	0.24	1.53
X	30	2,350.00	2.76	335.00	7.34	0.65	1.80
POP	30	19,269,958.00	77.05	47.88	112.00	0.22	1.88

Table 3 provides descriptive statistics showing the average maximum, minimum and mean. The overall mean value of the highest average. These statistics show that average economic growth in Ethiopia is approximately 27.20 billion USD. Overall, the economic progress of the country has been largely driven by an agricultural activities and an increase in industrial activity, including investments in infrastructure and manufacturing. Over this period, the highest GDP growth is 92.80 billion USD. The results show that the average FDI in Ethiopia is 827.03 million USD, while the highest investment was 4.14 billion USD. This suggests that FDI has a significant source of economic development in the country. Ethiopia's highest export rate during this period is 7.34 billion USD and its lowest is 335.00 million USD. The country's exports rely primarily on agricultural products. Despite that, the overall import value is estimated an average of 2.76 billion USD, which places the country particularly reliant on various import products such as machinery and mechanical appliances, equipment and parts, vehicles, and pharmaceuticals. Regarding the population of the region has been increasing last decades. Overall, average of population is 77.05 million persons. With regard to Ethiopia's inflation, the average inflation rate is currently 72.83 per year. In

the economy, service and goods overtime general price levels have been raised. It is estimated that inflation is 6.82% increase in 2019. The highest price shock occurs at 108.8 and the lowest occurs at 42.01 in 2002.

4.3.2 Unit Root Test

The first phase is to analysis of unit root test, to test the data, stationary is checked through trends and intercepts with both Phillips-Peron and Augmented Dickey Fuller testing. The null hypothesis for PP and ADF is that the series is non-stationary and the series as an alternative hypothesis is stationary.

Table 4. Unit Root Test

			ADF		PP	
	Levels	Model	t-statistics	Prob. *	Adj. S-stat	Prob. *
lnGDP	At Level		1.30	0.94	2.05	0.98
	1st Difference		-2.50	0.01**	-2.54	0.01**
lnFDI	At Level		0.16	0.72	0.48	0.81
	1st Difference		-6.70	0.00***	-5.97	0.00***
lnPOP	At Level		1.79	0.97	24.80	0.99
	1st Difference		-2.18	0.03**	-2.37	0.01**
lnX	At Level		2.71	0.99	2.55	0.99
	1st Difference		-3.43	0.00***	-3.38	0.00***
lnM	At Level		3.76	0.99	3.57	0.99
	1st Difference		-3.46	0.00***	-3.50	0.00***
lnINF	At Level		0.21	0.74	0.21	0.74
	1st Difference		-4.23	0.00***	-4.30	0.00***

*** p<0.01, ** p<0.05

The result indicates that at level all variables are non-stationary, so null hypotheses were rejected at level. Moreover, all the variables including GDP, FDI, population, export and import and inflation are stationary at the first different at less than 5% significant level, so all null hypotheses did not fail to reject for every test at first difference.

4.4 Ordinary Least Square (OLS) Test

The objective of this empirical research is to ascertain the impact of international trade and FDI on Ethiopia's economic growth. The Ordinary Least Square (OLS) test is used in this analysis to assess the presence of an equilibrium relationship between all variables and to estimate unknown parameters in a linear regression model.

Table 5. Ordinary Least Square, Dependent Variable: LNGDP

Variables	**Coefficients**	**Prob. ***
lnFDI	0.02	0.09*
lnM	-0.17	0.24
lnX	0.20	0.08*
lnPOP	1.97	0.00***
LnINF	1.56	0.00***
C	-19.53	0.00***
R-squared	0.99	
Observations	30	

*** p<0.01, ** p<0.05, * p<0.10

The empirical results of analysis are presented in table 5 has several interesting findings for the international trade and FDI on economic growth in Ethiopia. The study's findings show that export has a favorable association with economic development, which is consistent with theoretical assumptions. This means that export has a significant contribution to the nation’s export growth from 1990 to 2019. Indicate that this implies that the increasing of export commodities will lead to an increase of aggregate demand of Ethiopia which causes toward higher economic development of the country. This helps increase the efficiency of industry which is a major factor of productivity growth. The result is in the line with (Chemeda, 2001) confirmed that increased exports have a positive effect on Ethiopia's economic development. However, in this thesis, import have insignificant and negative effect on Ethiopia's economic development. The result shows that the FDI remained both positive and significant, which also represents the growth of private capital inflows, has a positive sign as it expected and significant at a level of one percent, which means that FDI increases

the economic growth of the host country by having an impact on the creation of new jobs, also developing financial markets and opening up trade importers. The estimated coefficient has a significant positive impact on the economic growth. In particular, FDI in sectors has increased in the manufacturing sectors and the infrastructure which contributes to Ethiopia's economic growth. This result of study is consistent with the result of (Zekarias, 2016) noted that foreign investment has positive impact on economic development in Eastern Africa.

Meanwhile, the population coefficient is thus positive and statistically at 5% level of significance. It means that growth of population will lead to higher economic growth. Therefore, the growth of population is having a major positive effect on the economic development of Ethiopia, making it important to contribute to the economic growth of the country.

4.5 Granger Causality Test

To examine the direction between variables of the study a Granger Causality test will be performed. The results, which are summarized the impact of FDI and international trade on economic growth in Ethiopia.

Table 6. Granger Causality

Pairwise Granger Causality Tests

Null Hypothesis:	Obs	F-Statistic	**Prob.**
lnFDI → lnGDP		4.02	0.03**
lnGDP → lnFDI	28	0.71	0.49
lnM → lnGDP		20.10	0.00***
lnGDP → lnM	28	6.87	0.00***
lnX → lnGDP		17.07	0.00***
lnGDP → lnX	28	2.50	0.10

lnPOP → **lnGDP**	28		20.22	0.00***
lnGDP **lnPOP**			2.13	0.14
lnINF → **lnGDP**	28		17.21	0.00***
lnGDP → **lnINF**			15.73	0.00***

*** p<0.01, ** p<0.05

The findings from the Granger Causality test, indicating the presence of bidirectional causality between GDP and import, as well as GDP and Inflation. The result also indicates that there is a unidirectional relationship between FDI and GDP, which implies foreign direct investment has an important contribution in increasing the level of the economic growth in Ethiopia. Thus, foreign investors came to the country with strong economic development. Also, the result shows that the existence of unidirectional causality between economic growth and export, which indicates that the export has contribution to the economic growth. As well as Population and GDP have a unidirectional causality relationship.

4.6 Johansen Cointegration Test

Cointegration analyses are used to determine whether or not Ethiopia has a long-term equilibrium between import, export, FDI, population, inflation and economic development. The analysis of all variables included full self-value and trace checks, as well as the presumption of pattern and intercept. After the unit root test and establishing the existence of a unit root at each variable's first difference, the next step would be to determine whether the series' linear combination is stationary. The objective of this methodology is to determine whether the unit roots of each variable are different (non-cointegrated) or share a common unit root (cointegrated). While a non-stationary variable appears to drift over time, a common linear combination can hold a pair of non-stationary variables together. Johansen analyzes the long-term relationships between foreign trade and economic development in Ethiopia using effective maximum likelihood testing. The tests were conducted at a 5% level of significance.

Table 7. Johansen Cointegration Test

Unrestricted Cointegration Rank Test (Trace)				
Hypothesized No. of CE(s)	Eigenvalue	Trace Statistics	0.05 Critical Value	Prob.**
None *	0.94	164.88	95.75	0.00***
At most 1	0.71	85.58	69.81	0.00***
At most 2	0.55	50.75	47.85	0.02**
At most 3	0.41	28.19	29.79	0.07
At most 4	0.36	13.29	15.49	0.10
At most 5	0.017	0.49	3.84	0.47

*** p<0.01, ** p<0.05

The result of Trace test from the Johansen co-integration confirmed that there is 3 Cointegration equations at 5 percent level of significance, which implies that the variables are cointegrated in the long-term. Thus the study rejects the null hypothesis that there is no co-integration, while supporting the alternative hypothesis that there is a long-term association between FDI, international trade and economic growth in Ethiopia.

4.7 Diagnostic test

Table 8. Diagnostic test

Serial Correlation Test	**Prob.** 0.33 **Prob. Chi-Square** (0.23)
Heteroskedasticity Test	**Prob.** 0.92 **Prob. Chi-Square** (0.92)
Normality Test	**Prob.** 0.55 **Jarque-Bera (**1.18)

The findings indicate that null hypothesis of all models provided for every test cannot reject. There is therefore no problem with serial correlations and the functional form test confirms that the model is well defined. Likewise the errors are normally distributed, and the model does not have a problem with heteroskedasticity. On the other hand, the normality test show that the distribution to determine normality is accurate and it shows the data is normally distributed.

5 CONCLUSION AND POLICY RECOMMENDATION

The study examined the effects of international trade and FDI on Ethiopia from 1990 to 2019. The influence of FDI and international trade on economic growth was examined using the Ordinary Least Squares (OLS) test in this study. Additionally, the study used Johansen Cointegration and the Granger Causality test to determine the direction of relationships between variables.

The thesis also used Johansen Cointegration test to determine the Cointegration between the variables. The Unit root, distributive statistics and diagnostic test among the variables were evaluated. In the empirical analysis, the impacts of FDI and international trade on economic growth in Ethiopia were investigated. In generally, economic development is measured in terms of GDP growth, export performance and FDI. It is assumed to affect economic development through these channels as outlined in the analytical framework. The model was included FDI, export, import and some other control variables to capture the impact.

As a result of evolving foreign policies and investment regimes throughout the post-reform era, FDI in Ethiopia has seen an upward trend in terms of capital inflow and number of projects over the last decade, even though there are fluctuations in some periods. The conclusion of the study confirms that FDI has a positive effect on GDP growth in Ethiopia, which suggests that FDI will increase the GDP growth rate overall. Additionally, this study found that import has a negative insignificant impact on the economic growth of Ethiopia. A high import dependency ratio results in lower economic growth. However, export has a positive statistically significant effect on economic growth in Ethiopia.

Population has a significant and positive relationship with economic growth based on empirical data obtained from the OLS test. So this indicates the importance of Ethiopian population on the economic growth. Since this study proved that there is a significant relationship between FDI and Ethiopia’s economic growth, it is encouraged to focus on enhancing the region's attractiveness for investment and implementing economic reforms aimed at increasing the presence of FDI and pushing for some progressive reforms by

eliminating market distorting actions to increase financial and political security, reducing administrative burden on business, and diversifying investment strategies.

Foreign direct investment is widely reported as one of the ways in which emerging and underdeveloped nations must concentrate and develop in order to catch up to developed countries and achieve economic growth. Ethiopia's economy, which mostly constitute between underdeveloped and developed nations, has attracted a large amount of FDI in recent years. Despite the flow of FDI into Ethiopia, there is debate over whether FDI in African nations has a measurable effect on economic growth, in comparison to other continents that also receive a large amount of FDI. Previous research the link between FDI and economic growth shown mixed results. Despite these controversial findings, it appears that foreign investment generally contributes positively to economic growth.

To invest in FDI, Ethiopia must deal with the deplorable state of its infrastructure. Various investigations have shown that outcomes for the impact of infrastructure on FDI is substantial, showing that infrastructure enhancements in Africa may contribute to a rapid growth. Similarly, an improvement in infrastructure could lead to big returns for local investment. Furthermore, motives for attracting foreign direct investment (FDI) should be applied in different ways, such as by financing policies such as smoothing out financing costs at competitive levels and expanding access to capital; as well as trade policies like justification of tariffs and removing non-tariff and institutional reform policies, such as upgrading competitiveness and reinforcing rules of corporate administration.

Investing in FDI contributes positively to a country's economy. Ethiopia should seek to enhance foreign direct investment through improving investment climates, building critical infrastructure, increasing human capital investment, promoting regional integration, preserving departmental cooperation, and strengthening external ties. According to this thesis, empirical evidence from Ethiopia between 1990 and 2019 suggests that the majority of tests are significant, confirming that FDI has a strong association with economic development in Ethiopia. Since this thesis confirmed that there is a significant relationship between FDI inflows and Ethiopia’s economic growth, it is encouraged to Ethiopia to work

on applying economic reforms regarding the attraction of FDI and making incentives for it. It is encouraged for the country to apply these progressive reforms:

I. Minimizing the administrative weight on businesses.
II. Eliminating market-damaging behaviors in order to improve resource allocations.
III. Mitigating the uncertainty of FDI by improving political and financial security.
IV. Using diversification techniques in investing and limiting the dependence on natural resources.

However, caution should be exercised in terms of the FDI composition and its maturity stage, as well as low tax collection due and profit repatriation. It is widely accepted that foreign direct investment (FDI) follows local investment, and therefore it is essential to set the groundwork for larger investments. Additionally, Ethiopia is required to undertake measures to bridge continental borders and make investments in one another. Attracting foreign direct investment (FDI) and increasing economic growth would be beneficial for constructing free trade areas. Free trade areas could enhance the ability to attract further-regional investment.

The following recommendations can be expanded in light of the thesis's findings and conclusions. The research concluded that better coordination between domestic and foreign investment is necessary, as is more incentive for domestic investment. Additionally, strong relationships between foreign and domestic investors are required to carry out joint projects as partners; hence, domestic investment contributes significantly to economic growth. This recommendation is made to encourage domestic investment and to acquire skills from foreign investors.

The government should make every effort to reduce its running expenses while increasing investment expenditures in order for the private sector to perform its part and enhance the likelihood of investment success, while the role of the private sector in economic growth is essential. Finally, population expansion should be planned, and there should be a strategy in place to ensure that the population's human capital grows as well. Finally, the goal of this recommendation is to reduce the influence of governments on rising government spending, in order to make it possible for the government to finance its expenditures.

The research suggested to the government in an area that they should have a strategy for more development, particularly in the energy and road sectors, in a region where there are many key things to be built or renovated. While the research discovered that infrastructure in the region is lacking, such as a lack of distribution, a lack of utilities, and a lack of roads and a transportation system, it also revealed that the country has a strong economy. This proposal is for lowering investment expenses while improving profit margins, as well as for expanding investment in a variety of areas.

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